231018 – IS Curve

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| **Motivating Questions**  Ch 11: What is the relationship between interest rates and short run output? |
| The Fed can directly change \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.  The Fed is also interested in keeping \_\_\_\_\_\_\_\_\_\_\_\_\_ around 2% and unemployment near the \_\_\_\_\_\_\_\_\_\_\_\_ rate, but it can’t change either of those things directly.  From Okun’s Law and the Phillips Curve, we know unemployment and inflation depend on: output \_\_\_\_\_\_\_\_\_\_\_\_.  The IS curve tells us how \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ influence \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. |
| IS Curve: “Investment Equals Savings” or “Investment-Savings” curve. Why? |
| IS curve comes from GDP: |

231018 –IS Curve Components

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| Assume G, X, M are a constant percent of potential: | | | |
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| Investment depends on Interest rates: | | | |
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| :  Comes from: | :  Comes from: | | :  Comes from: |
| Consumption grows in good times and shrinks in bad times: | | | |
| : | | : | |