231020 – IS Curve – Derivation

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|  | is normally equal to zero. Why? |
| When , we call this an \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_ shock. | |

231020 – Using the IS Curve

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| Movement along the curve or a shift? | | |
| increases? | increases? | increases? |
| Life-cycle model suggests households (HH) \_\_\_\_\_\_\_\_\_\_ consumption over their lifetime.  Permanent income hypothesis suggests HH spend \_\_\_\_\_\_\_\_\_ percent of their expected \_\_\_\_\_\_\_\_ earnings.  How are these hypotheses linked to the IS model? | | |
| Contrary to the PI or Lifecycle model, we see HH typically spend about 30% of “surprise” earnings.  What component of the IS curve best matches this empirical result? | | |
| What are automatic stabilizers?  What types of policies are stabilizers? | | |
| What is the concept of Ricardian Equivalence? | | |