

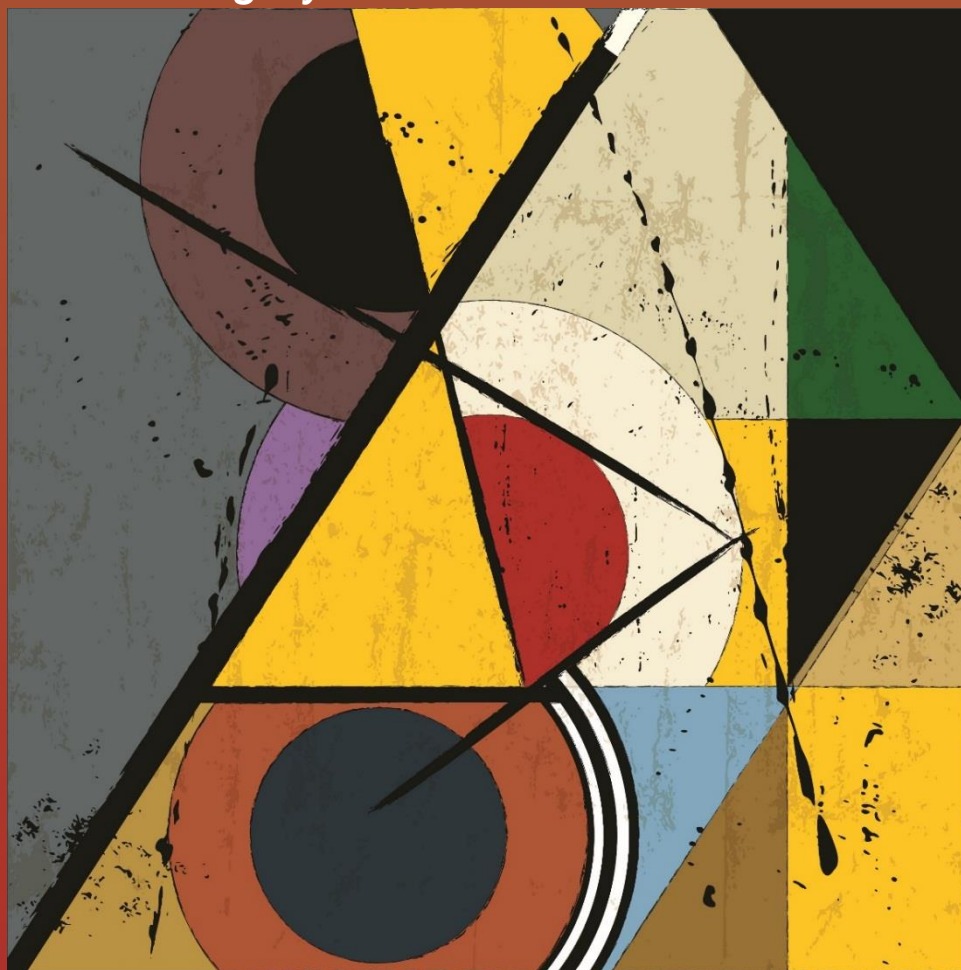
# CHAPTER 12

## Aggregate Demand II: Applying the *IS- LM* Model

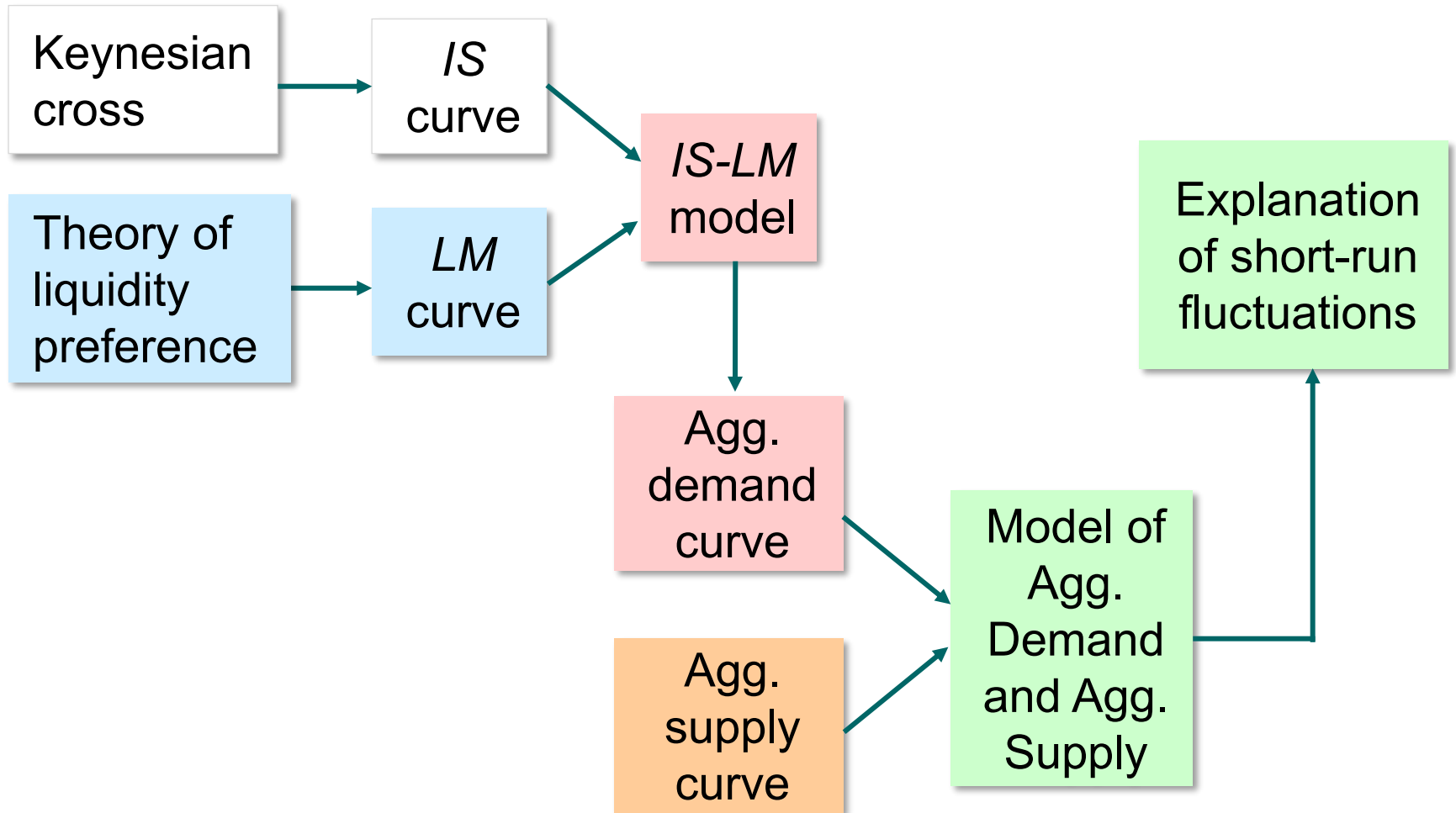
Presentation Slides

# Macroeconomics

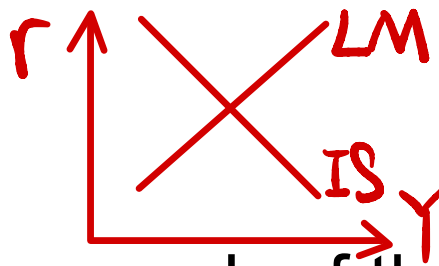
*N. Gregory Mankiw*



# ***The Big Picture***



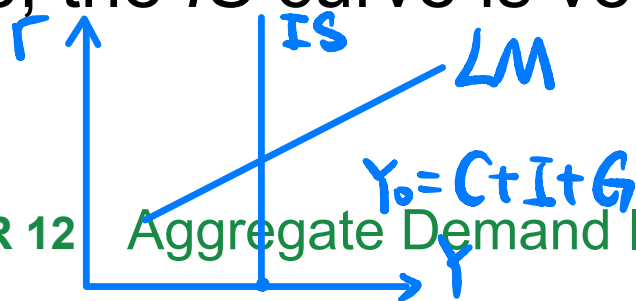
# Exercises



- 5. Determine whether each of the following statements is true or false, and explain why. For each true statement, discuss whether there is anything unusual about the impact of monetary and fiscal policy in that special case.

- a. If investment <sup>IS curve</sup> does not depend on the interest rate, the  $LM$  curve is horizontal. **False**

- b. If **investment** does not depend on the interest rate, the  $IS$  curve is vertical. **True**



财政政策有效 货币政策无效

## LM curve

- c. If money demand does not depend on the interest rate, the  $IS$  curve is horizontal. **False**

- d. If **money demand** does not depend on the interest rate, the  $LM$  curve is vertical. **True**

货币政策有效  
财政政策无效

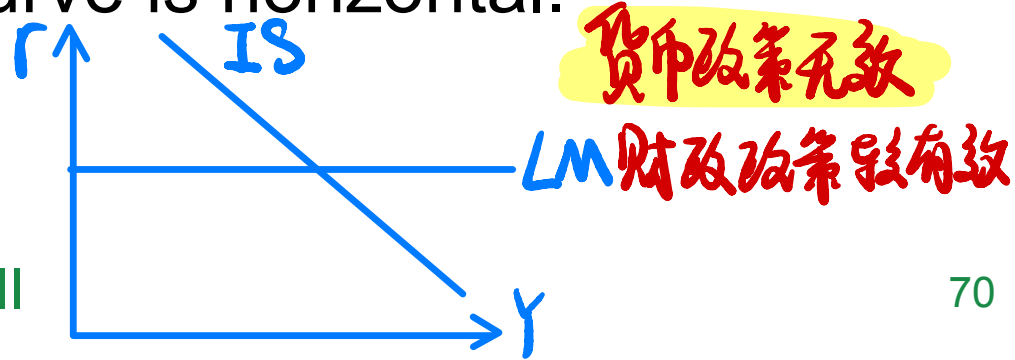
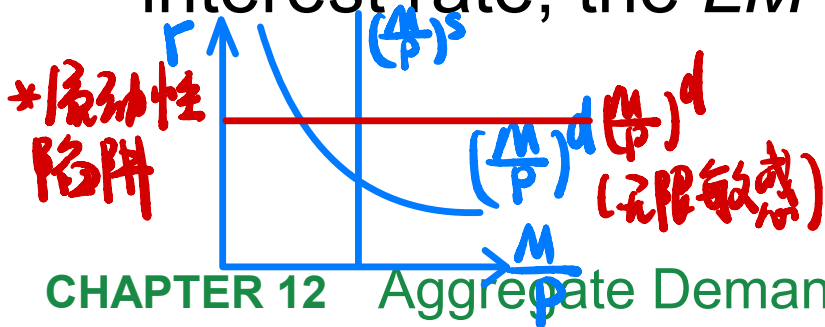
- e. If **money demand** does not depend on income, the  $LM$  curve is horizontal. **True**

货币政策、财政政策均有效

- f. If **money demand** is extremely sensitive to the interest rate, the  $LM$  curve is horizontal.

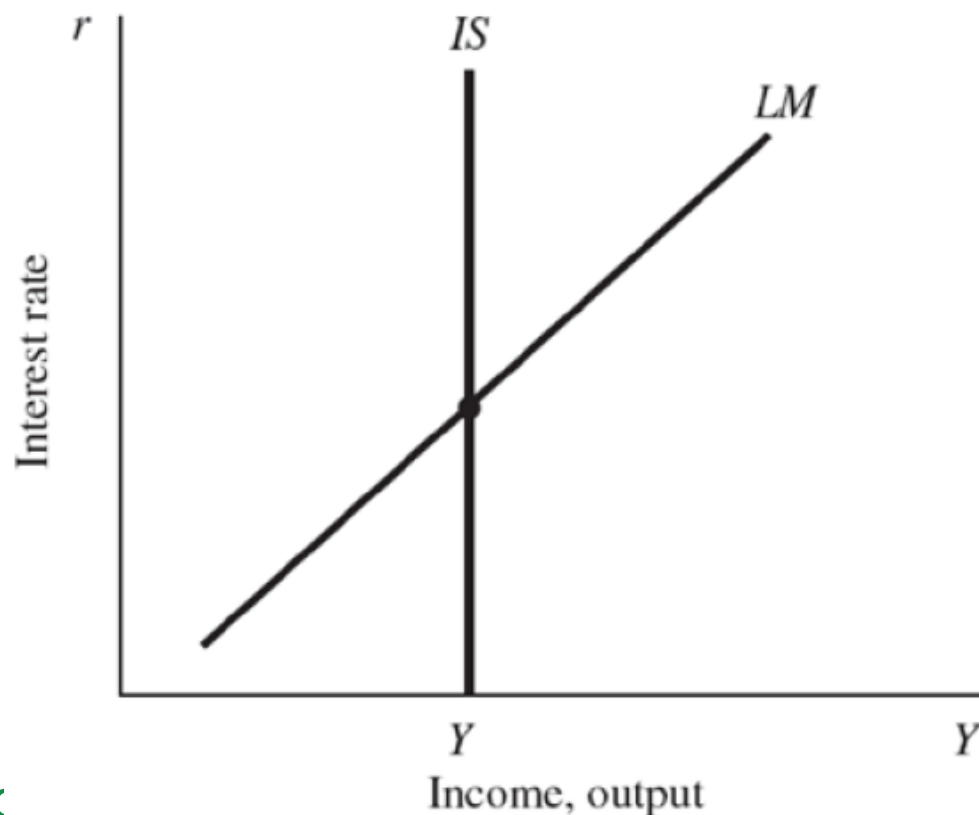
货币政策无效

财政政策有效

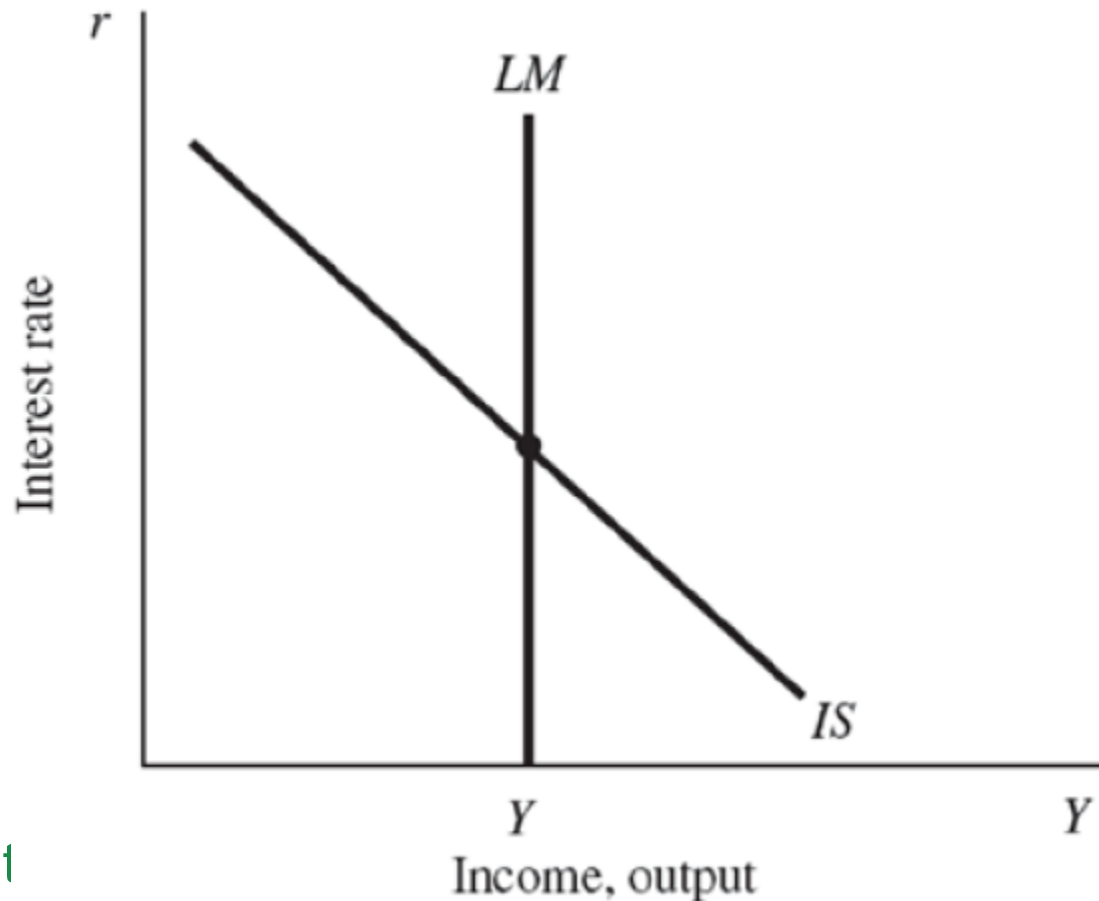


# Answers

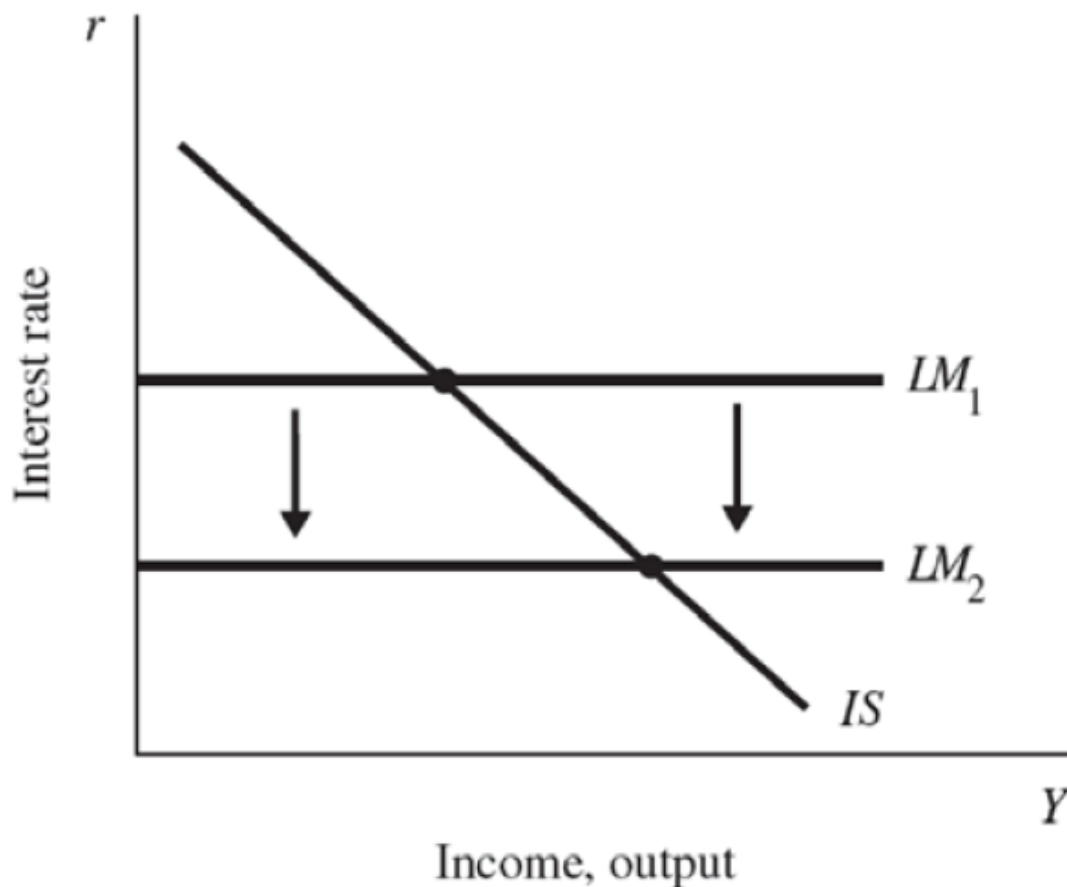
- a. False.
- b. True. Monetary policy has no effect on output, and fiscal policy is very effective.



- c. False.
- d. **True.**  $M/P = L(Y)$ , for any given level of  $M/P$ , there is only one level of income at which the money market is in equilibrium. Thus, the  $LM$  curve is vertical. **Fiscal policy has no effect on output, and monetary policy is effective.**



- **e. True.**  $M/P = L(r)$ , For any given level of  $M/P$ , there is only one level of  $r$  at which the money market is in equilibrium. Thus, the  $LM$  curve is horizontal. **Fiscal policy is very effective, and monetary policy is also effective.**



- **f. True.** If money demand is extremely sensitive to the interest rate, then it takes a *very* small increase in the interest rate to reduce money demand and restore equilibrium in the money market. Hence, the  $LM$  curve is (nearly) horizontal.

**Fiscal policy is very effective, but monetary policy is now completely ineffective, since an increase in the money supply does not shift the  $LM$  curve at all.**

