Reminder: First Exam is on Tuesday, 12:40 – 1:00PM

Main goal: Putting together the Goods and Financial Markets

Class Outline

- The IS Curve: Goods market equilibrium
  - Derivation
  - Movements along + shifts in the curve

- The LM Curve: Financial market equilibrium
  - Derivation
  - Movements along + shifts in the curve

Main questions discussed in class

Derivation of the IS curve. Be sure to understand how we move from the cross-Keynesian diagram to the IS curve. This is the central question of this class.

If interest rate increases, what happens to the price of bonds?

What are the factors that cause changes in interest rate and output?

What determines the aggregate level of spending in the economy?

What are the autonomous components of spending?

What do we call the Z curve?

What is the IS curve? What does it plot?

What are the factors that cause the IS curve to shift?

Why is the IS curve downward sloping?

Suppose that we are at a point to the right (left) of the IS curve, say point A. Is point A an equilibrium? Is income greater(smaller) than spending at point A?