Reminder: First Exam is on Tuesday, 12:40 – 1:00PM, McC 208

- The LM Curve: Financial market equilibrium
  - Derivation
  - Movements along + shifts in the curve
- The interaction between the goods and financial markets
  - Fiscal Policy
  - Monetary policy

Main questions discussed in class

Why are we building the IS-LM model?
What is the IS curve?
What happens to equilibrium Y when autonomous components change?
What are the factors that cause the IS (LM) curve to shift?
What does the IS curve determines?
What does the LM curve determines?
What does the interest rate depend on?
What happens in the money market if the price level goes up?
Explain the logic behind this: “Income goes up, and then interest rate goes up”
You should be able to analyze the effects of fiscal policy on output and interest rate.