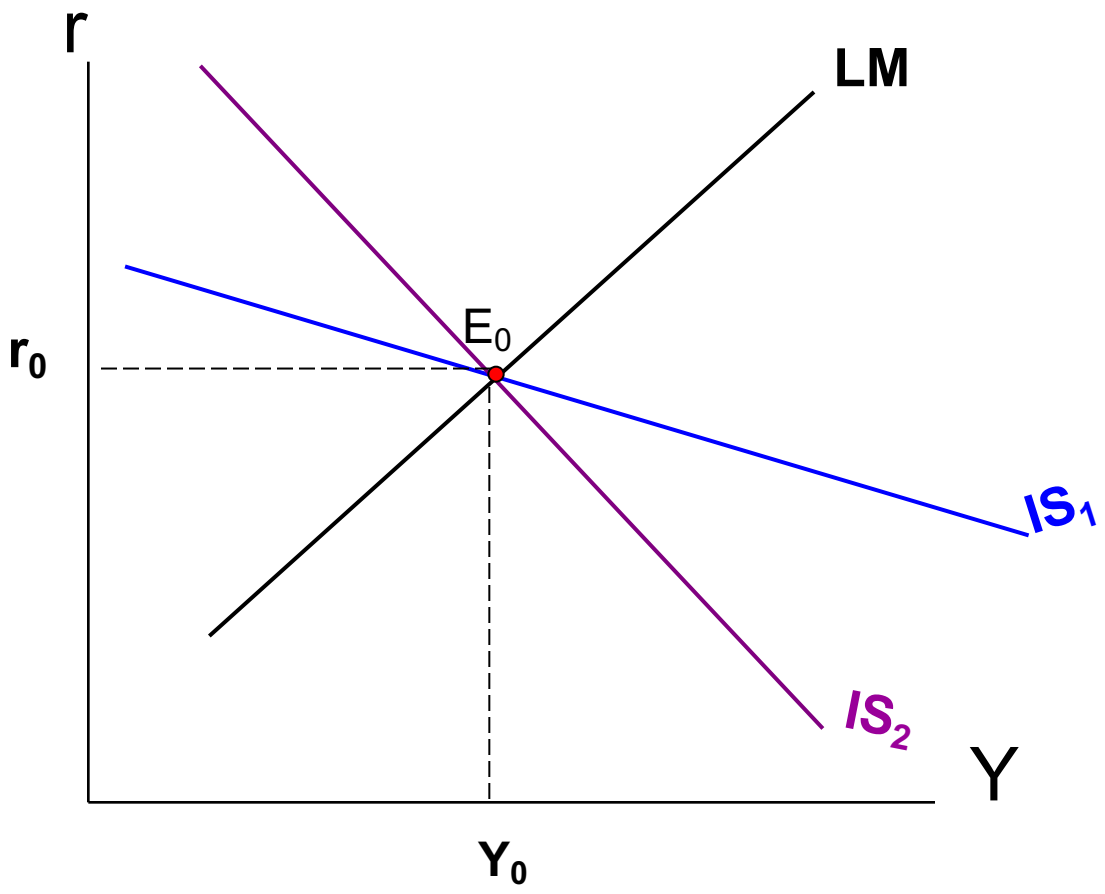
7.2 Monetary Policy Effectiveness

7.1.1 Monetary policy effectiveness and slope of IS curve

7.1.2 Monetary policy effectiveness and slope of LM curve

7.2.1 Monetary policy effectiveness and slope of IS curve



7.2.1 Monetary policy effectiveness and slope of IS curve

(a) IS curve is quite flat: suppose due to high $\varepsilon_{I,r}=\frac{\Delta I}{\Delta r}\times\frac{r}{I}$

- M^s ↑ ⇨ ⇨ ⇨ ⇨

Monetary policy is _____

(b) IS curve is quite steep: suppose due to low $\varepsilon_{I,r}=\frac{\Delta I}{\Delta r}\times\frac{r}{I}$

- M^s ↑ ⇨ r ↓ ⇨ I ↑ a little ⇨ DAE ↑ a little ⇨ Y ↑ a little

Monetary policy is _____

7.2.2 Monetary policy effectiveness and slope of LM curve

Slope of LM curve depends on

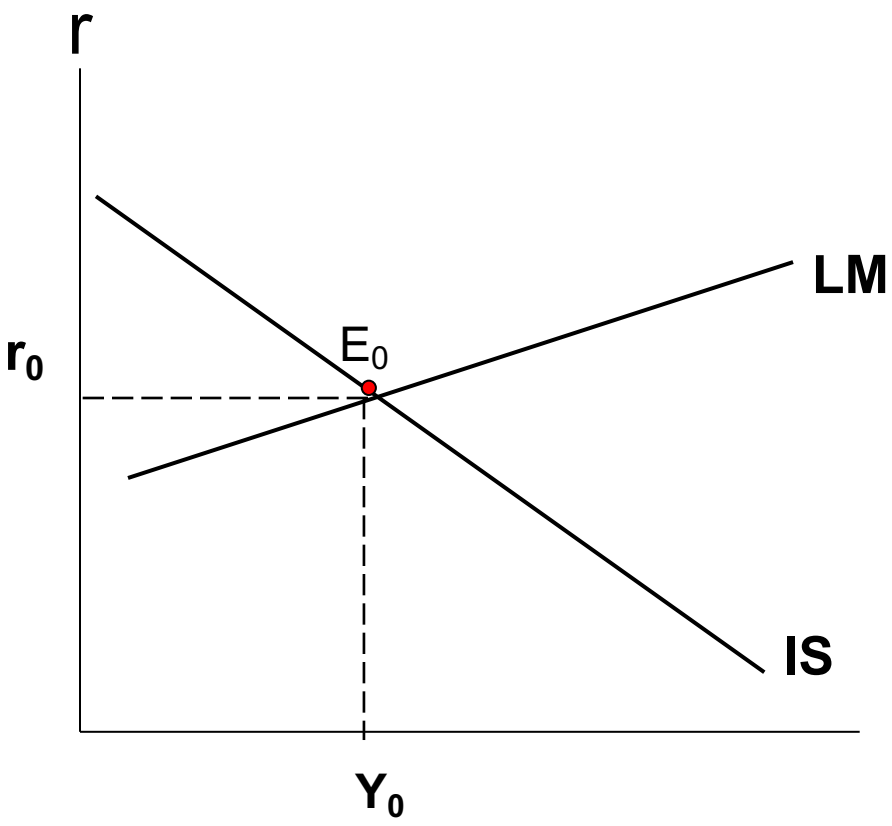
- .
$$\varepsilon_{M^d,r} = \frac{\Delta M^d}{\Delta r} \times \frac{r}{M^d}$$

⇐ focus on this one

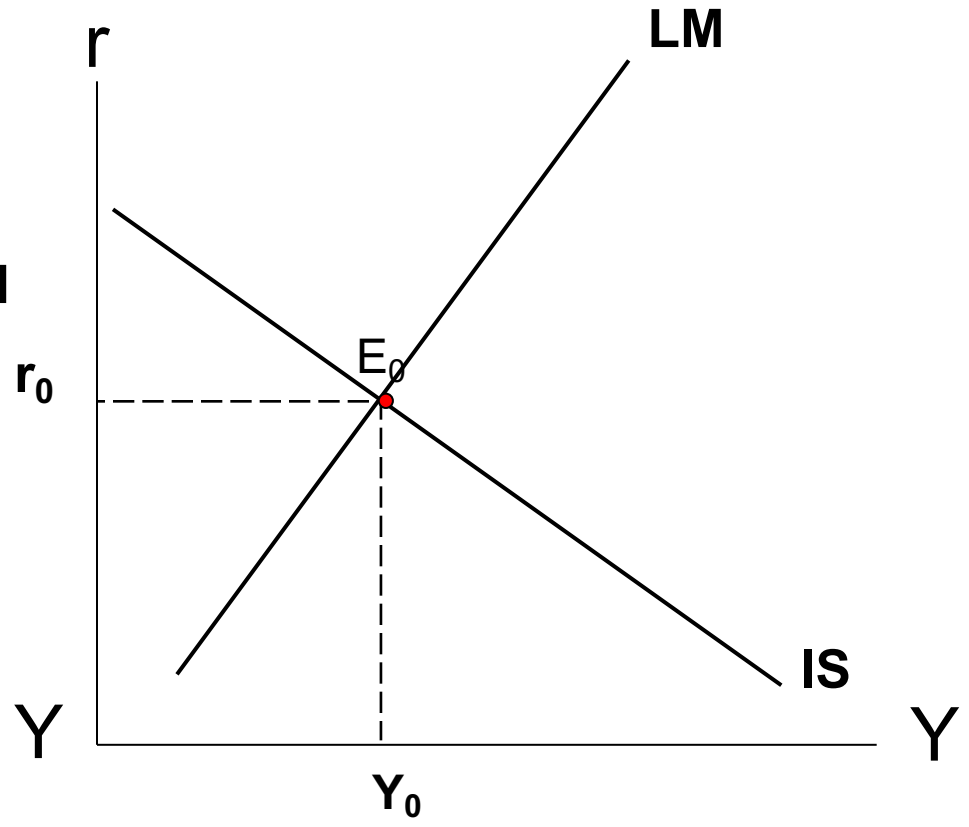
- .
$$\varepsilon_{M^d,Y} = \frac{\Delta M^d}{\Delta Y} \times \frac{Y}{M^d}$$

7.2.2 Monetary policy effectiveness and slope of LM curve

(a) LM is quite flat



(b) LM is quite steep



7.2.1 Monetary policy effectiveness and slope of LM curve

(a) LM curve is quite flat: suppose due to high $\varepsilon_{M^d,r} = \frac{\Delta M^d}{\Delta r} \times \frac{r}{M^d}$

- M^s ↑ ⇨ ⇨ ⇨

⇨

(b) LM curve is quite steep: suppose due to low $\varepsilon_{M^d,r} = \frac{\Delta M^d}{\Delta r} \times \frac{r}{M^d}$

- M^s ↑ ⇨ ⇨ ⇨

⇨

7.2.1 Monetary policy effectiveness and slope of LM curve

(a) LM curve is quite flat: suppose due to high $\varepsilon_{M^d,r} = \frac{\Delta M^d}{\Delta r} \times \frac{r}{M^d}$

- M^s ↑ ⇨ ⇨ ⇨ ⇨

Monetary policy is _____

(b) LM curve is quite steep: suppose due to low $\varepsilon_{M^d,r} = \frac{\Delta M^d}{\Delta r} \times \frac{r}{M^d}$

- M^s ↑ ⇨ ⇨ ⇨ ⇨

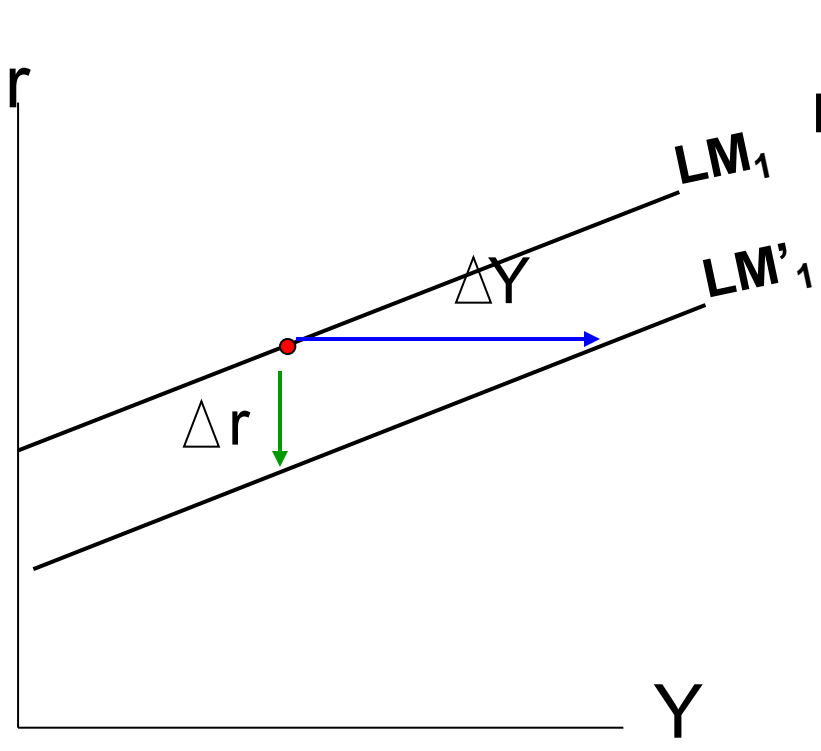
Monetary policy is _____

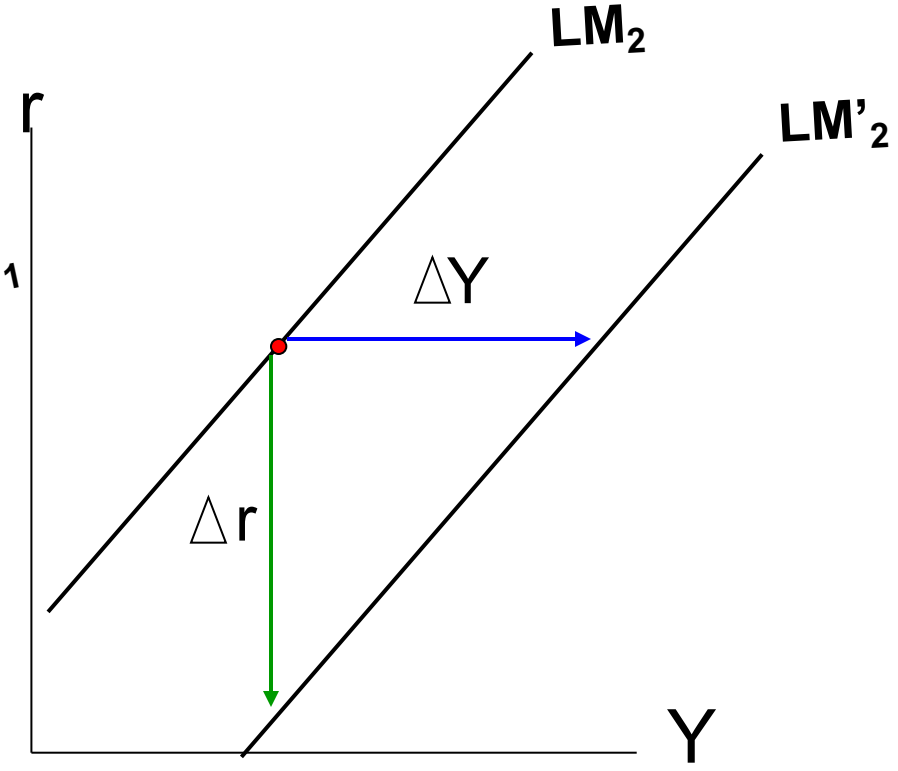
$\varepsilon_{M^d,r}$ C_2 high

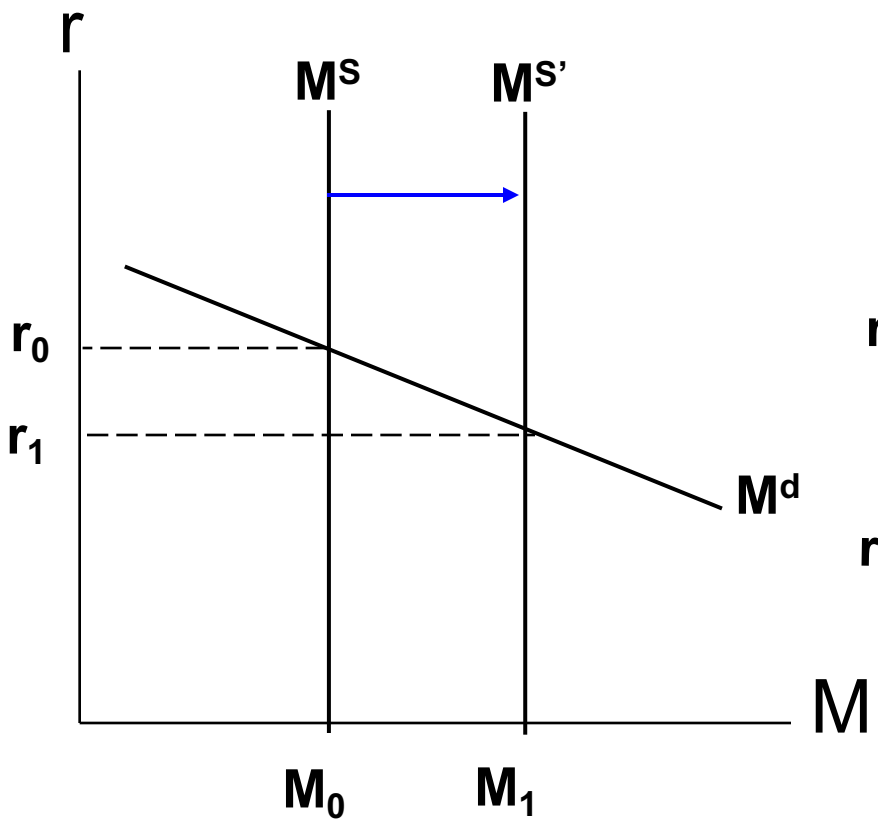
$\varepsilon_{M^d,Y}$ C_1 equal

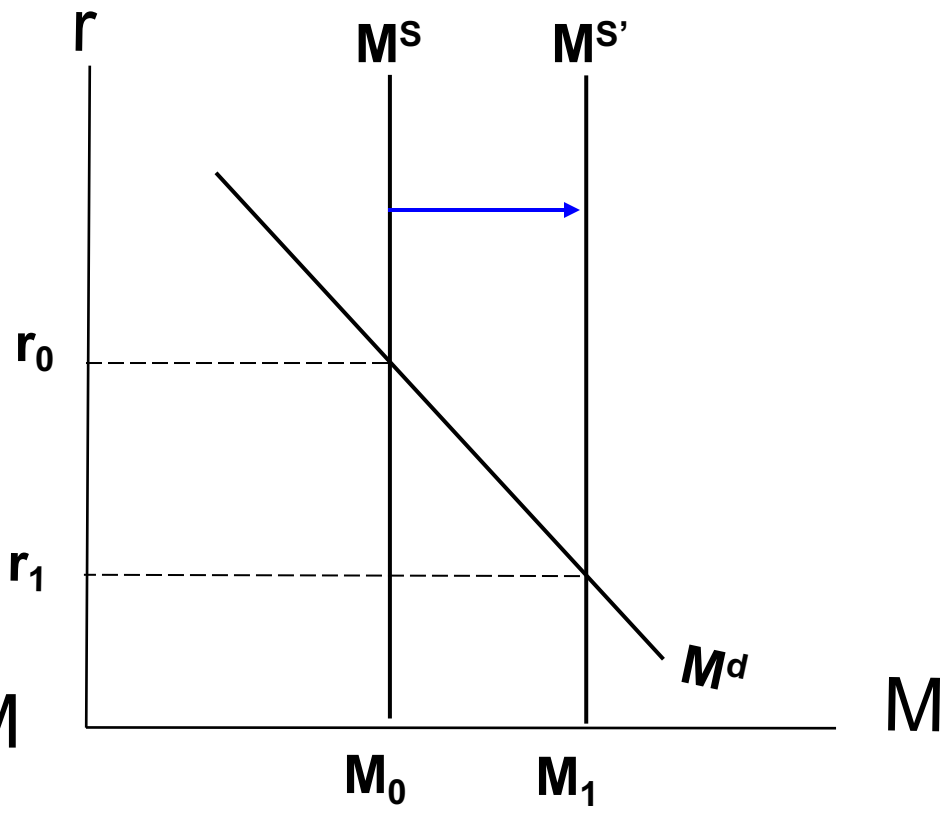
$\varepsilon_{M^d,r}$ C_2 low

$\varepsilon_{M^d,r}$ C_1 equal






r
M^S
$M^{S'}$
r_0
r_1
M^d
M
M_0
M_1


r
M^S
$M^{S'}$
r_0
r_1
M^d
M
M_0
M_1