

Recap.

- ① Equilibrium in Product Market $\rightarrow$ IS curve } slope
- ② Equilibrium in Money Market $\rightarrow$ LM curve } shifts

③ IS-LM Equilibrium : IS intersects with LM

- Disequilibrium / adjustment towards the IS-LM Equ^m

- Changes in IS-LM Equilibrium

factors affecting IS/LM "changing"

"IS shock" $\rightarrow$ or IS shock factors

$\rightarrow$ go over in further analysis $\rightarrow$ LM shock $\rightarrow$ factors affecting LM
 $\rightarrow$ changes in Equ^m



drop $\downarrow$ $L_d(y, r)$ $\Rightarrow$ Money demand shifted down b/c better transaction technology makes it less needed for

IS relation	LM relation	IS-LM combined	Change in equilibrium
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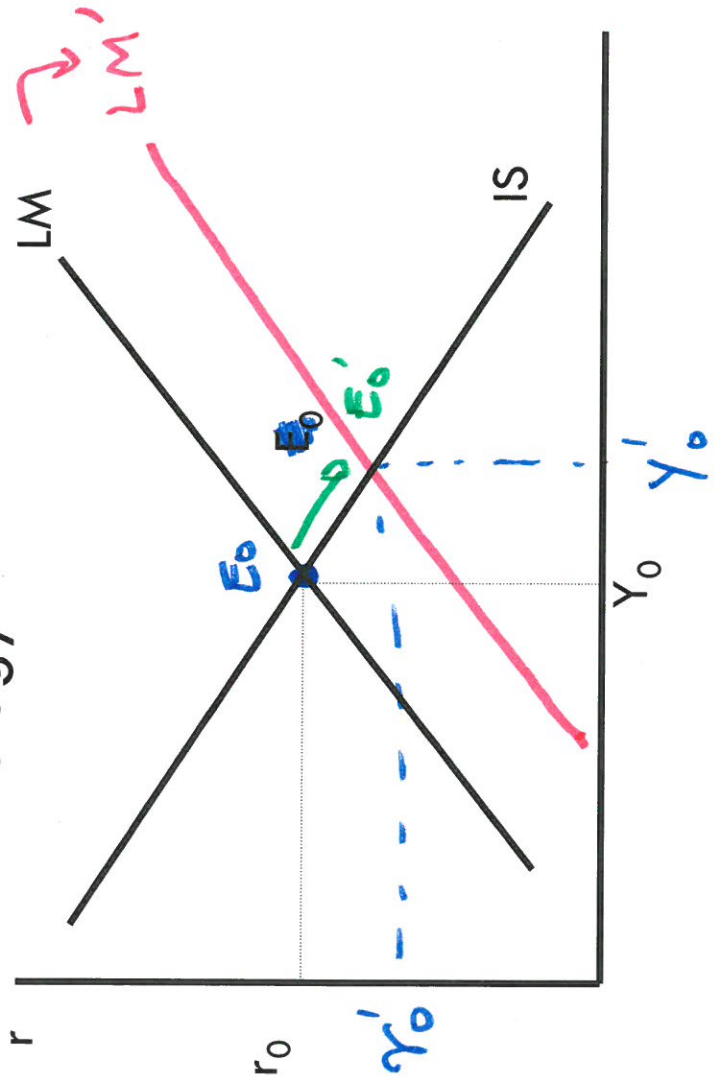
PPI to hold cash/money.

CHANGES IN EQUILIBRIUM

check
"Transmission of the Impact"

- Consider the impact of an improvement of transaction technology

interest rate falling for every level of income as ppl holds less money (b/c better payment methods)

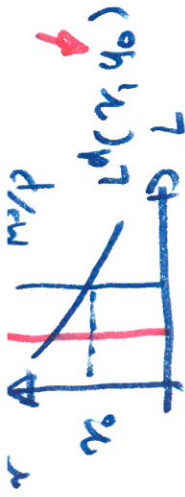


Starting from E_0 (initial Equ^m)

for new $E_0 \rightarrow$ disequilibrium

Excess supply for money $\rightarrow$ interest rate is falling.

Predicting more responding to the increase in AE
 $\downarrow \bar{c}, \bar{i} \uparrow \rightarrow AE \uparrow \rightarrow Y \uparrow$



$M^s \downarrow \rightarrow$ real money supply $\downarrow$

for the fixed $Y_0 \Rightarrow r_0 \rightarrow r$ that is higher (higher r)

IS relation	LM relation	IS-LM combined	Change in equilibrium
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CHANGES IN EQUILIBRIUM

- Consider the impact of a drop in nominal money supply

$\Rightarrow M^s \downarrow$

$E_0 \rightarrow$ no longer E_{eq}

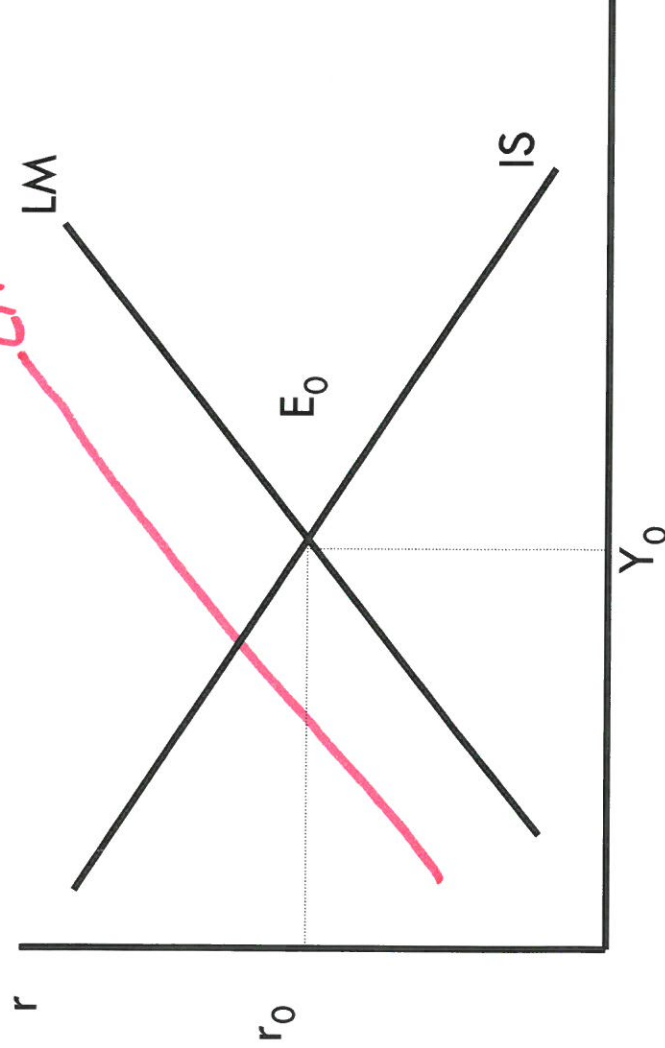
- Excess demand for money in the money market

$\rightarrow$ interest rate is rising to adjust the ~~Eq~~ dis equilibrium

$\rightarrow$ downsizing "C" and "I" (b/c $r \uparrow$)

$Y \rightarrow AE \downarrow \rightarrow Y \downarrow$ (firms respond by cutting

the production to ~~match~~ $AE \downarrow$.

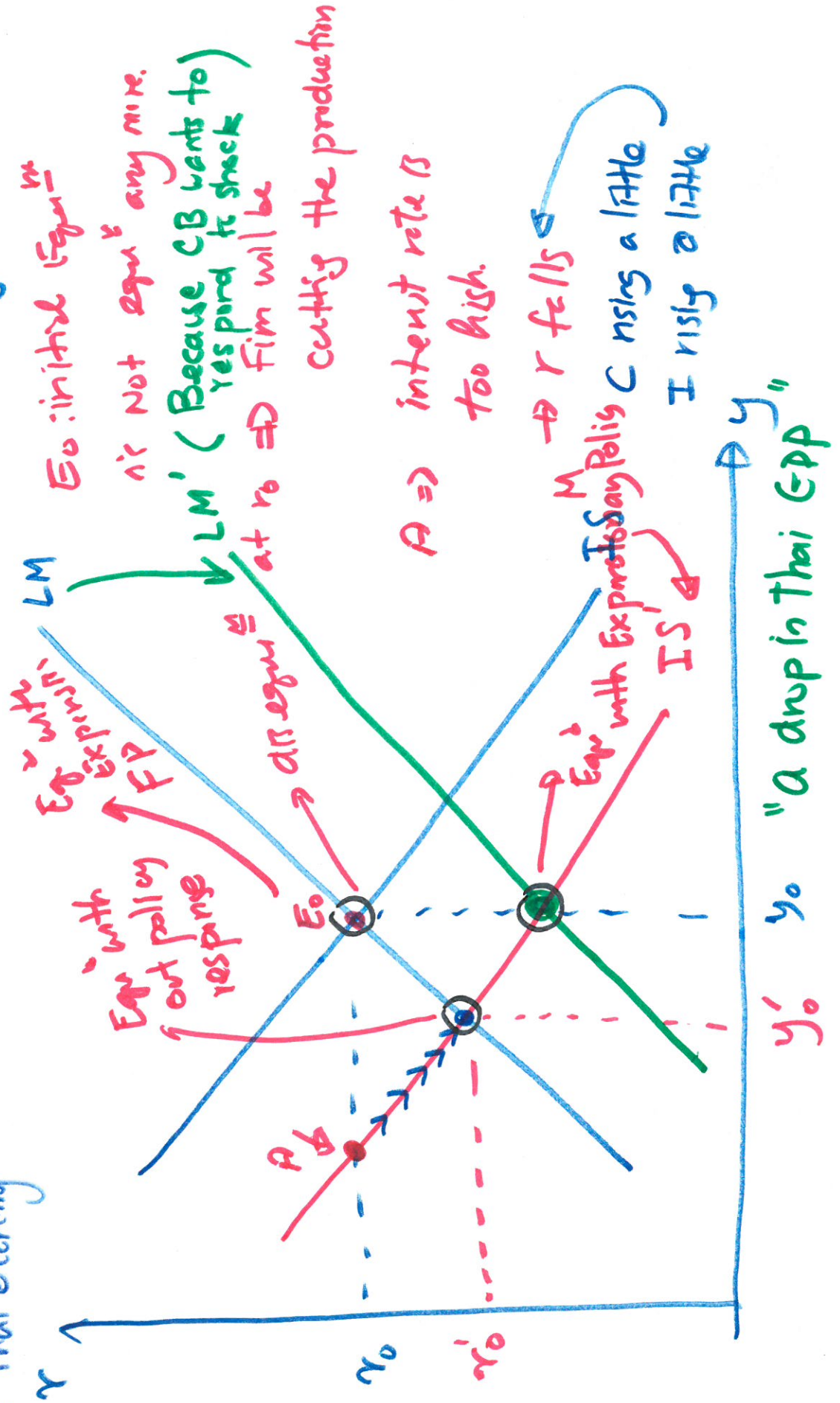


Trade War

→ Likely to causing a slow down in World GDP
 by 0.1% → Cause the fall in Thailand exports

Impact on Thai Economy

No Trade war (Growth grows normally)



① Expansionary Fiscal Policy

② Expansionary Monetary Policy

$\sum$

$y_0' \rightarrow y_0$

Expansionary fiscal policy (G $\uparrow$; T $\downarrow$) $\rightarrow$ shifting back.

Is

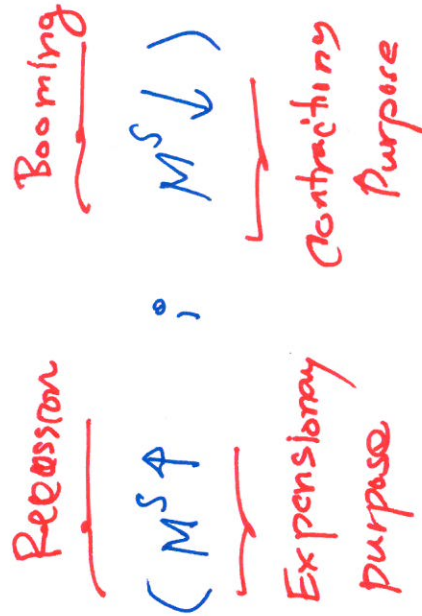
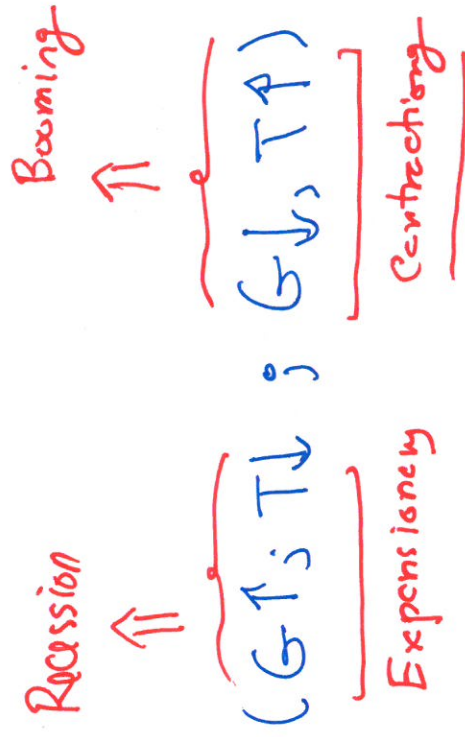
$\downarrow$

This is to counteract the effect of word GDP growth decline.

MS $\uparrow \rightarrow$ LM curve.

Policy Effectiveness

Government policy $\rightarrow$ FP

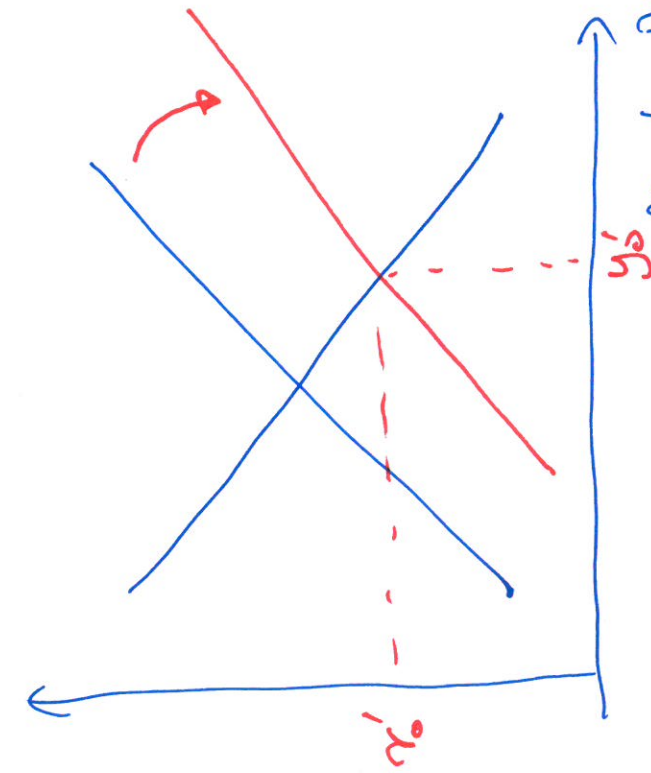


Monetary Policy $\rightarrow$ MP

Which Policy to Use? $\Rightarrow$ Given we have two options

Expanding FP $\xrightarrow{\text{solving}}$ Recession

Expanding MP



Under Expansionary Monetary Policy

- Boosting the output
- declining the interest rate.

solve recession

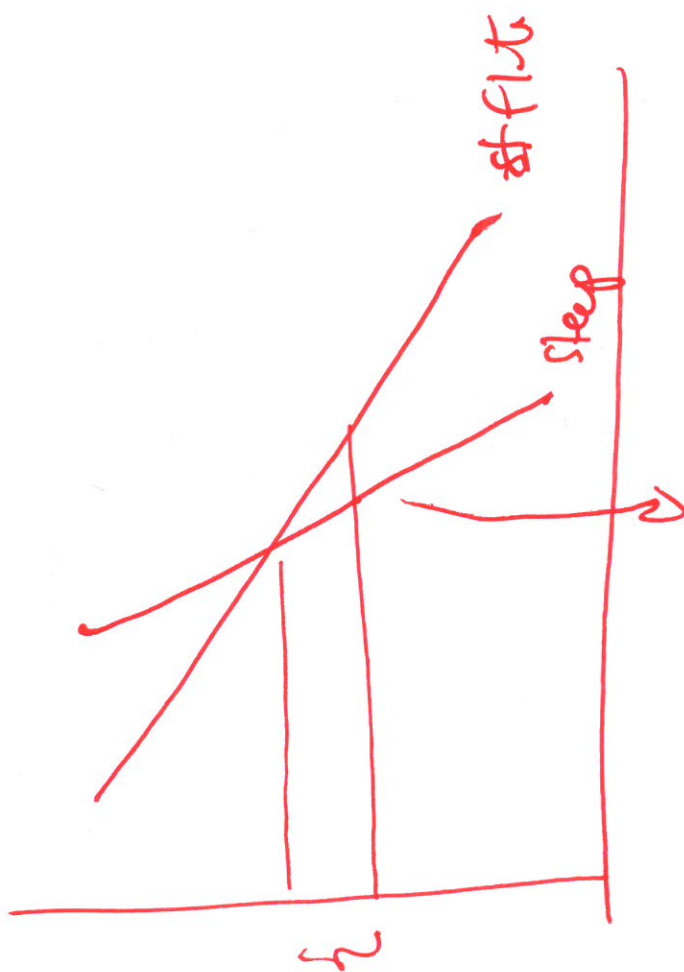
Under Expansionary Fiscal Policy

- Boosting the output
- rising interest rate

how big is the change in output following from the policy.

"size"

"slope"



output is smaller than the increase in output
under the flatter one.

$\Delta y \Rightarrow$ measurement of
Policy Effectiveness



MP will be effective
when IS curve is
flat

IS flat. (income

sensitive to

interest rate

$\{ \bar{C}, \bar{I}$ respond

sensitively to r

- large multiplier

low sensitivity

of income

to interest

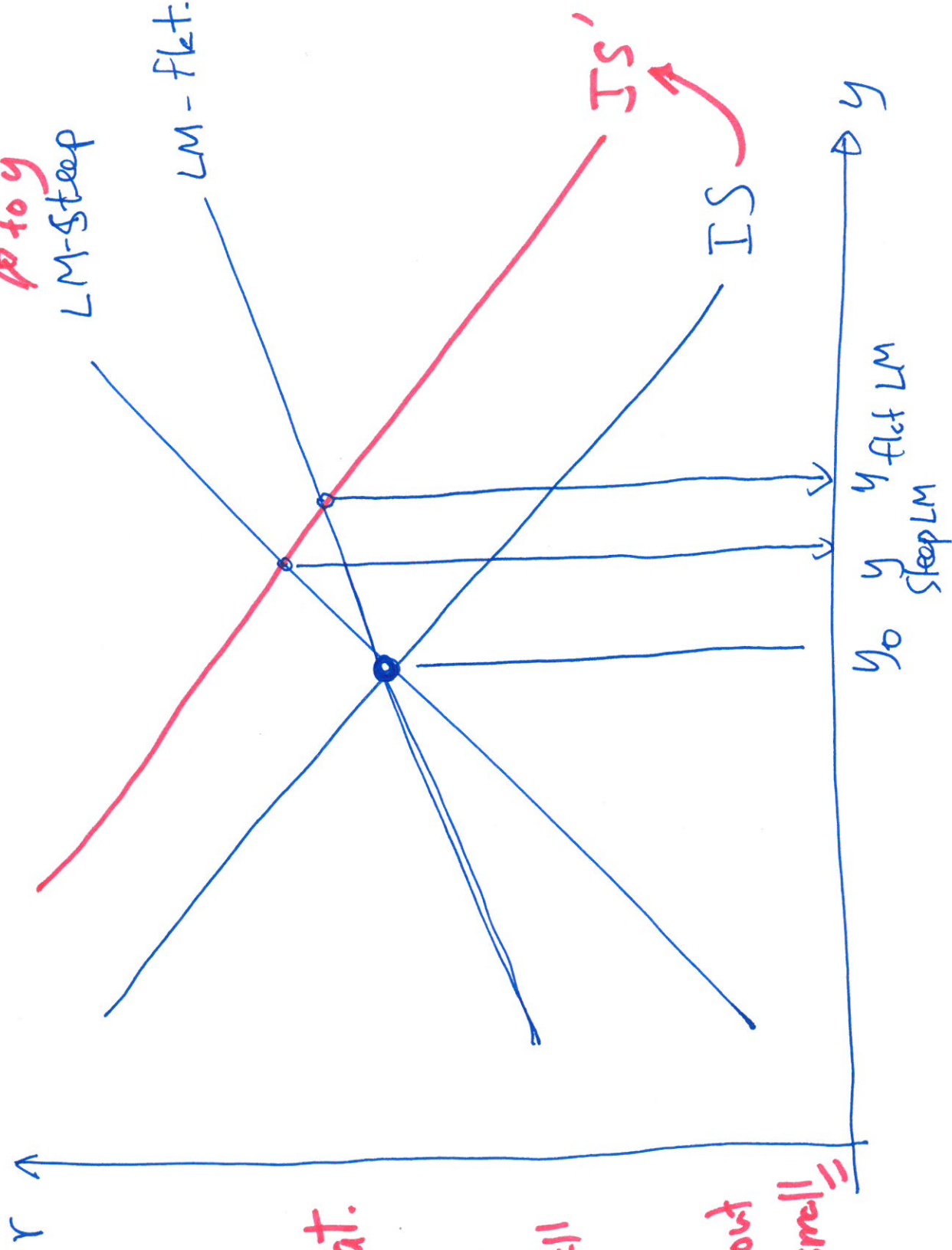
rate

Expansory Monetary Policy.

flat

Effectiveness of fiscal policy

What determines the size of output change, following from the FP. money demand $\propto$ insensitive to r money demand sensitive to y



FP will be more Effective when LM curve is flat. Under the flat LM there will be a small increase in " r ". The size of crowding-out effect will be small ==