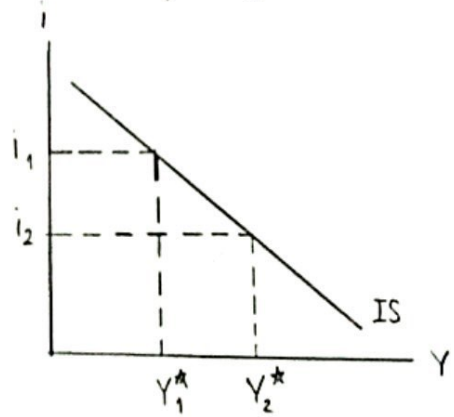
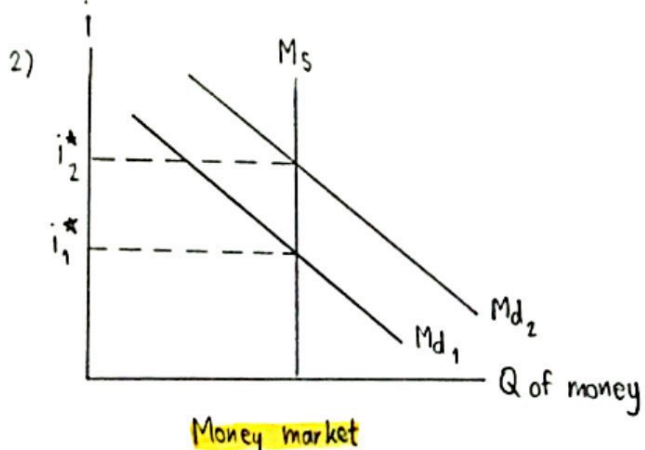


Goods & Services market

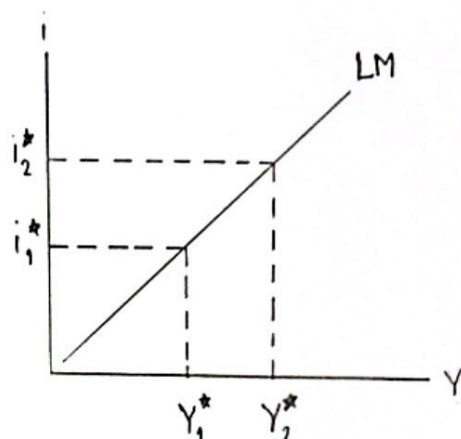


IS curve

The IS curve represents the negative relationship between  $i$  and  $Y$  ( $i \uparrow \rightarrow I \downarrow \rightarrow AE \downarrow \rightarrow Y \downarrow$ )

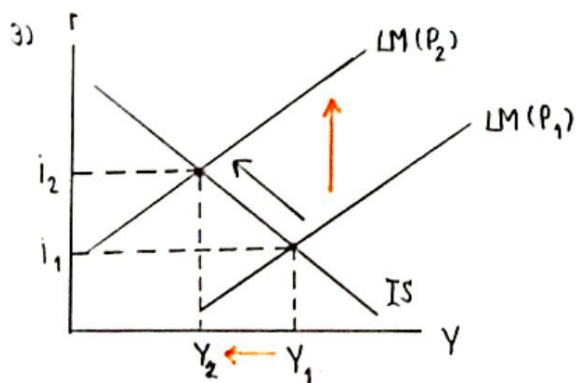


Money market



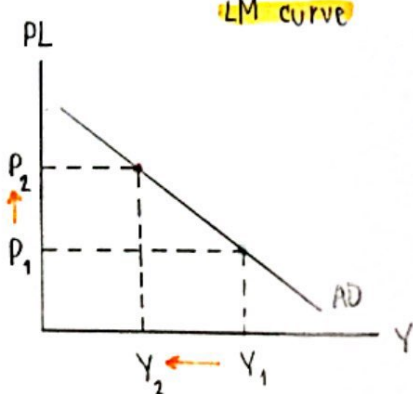
LM curve

The LM represents the positive relationship between  $i$  and  $Y$   
 $(Y \uparrow \rightarrow M_d \uparrow)$   
 $(i \uparrow \rightarrow M_d \downarrow)$



Higher price level  $P$  shifts the LM curve  $\uparrow$  lowering ( $\downarrow$ ) income ( $Y$ )

The IS-LM model



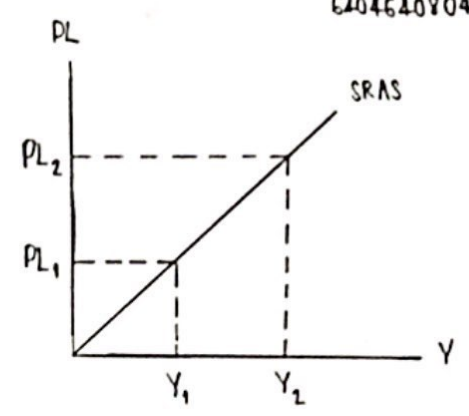
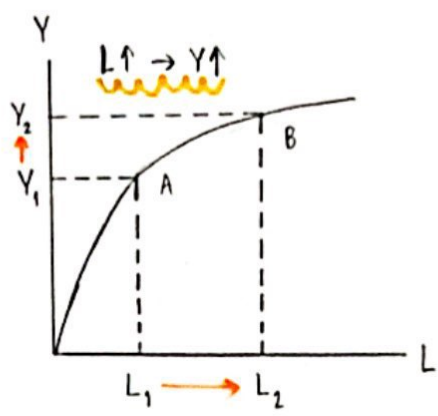
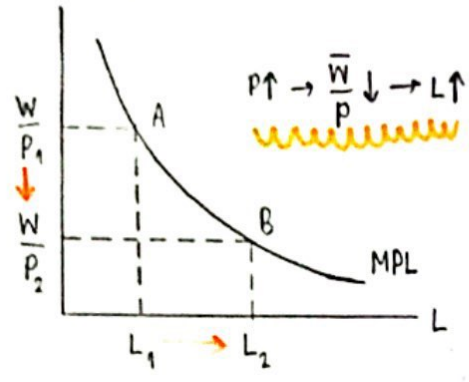
The AD curve summarizes the negative relationship between  $PL$  and  $Y$

The AD curve

In MM:  $P \uparrow \rightarrow \frac{M}{P} \downarrow \rightarrow i \uparrow$

GM:  $i \uparrow \rightarrow \frac{P}{I} \downarrow \rightarrow AE \downarrow \rightarrow Y \downarrow$

4)  $W = W/P$



SRAS represents the positive relationship between  $P$  and  $Y$