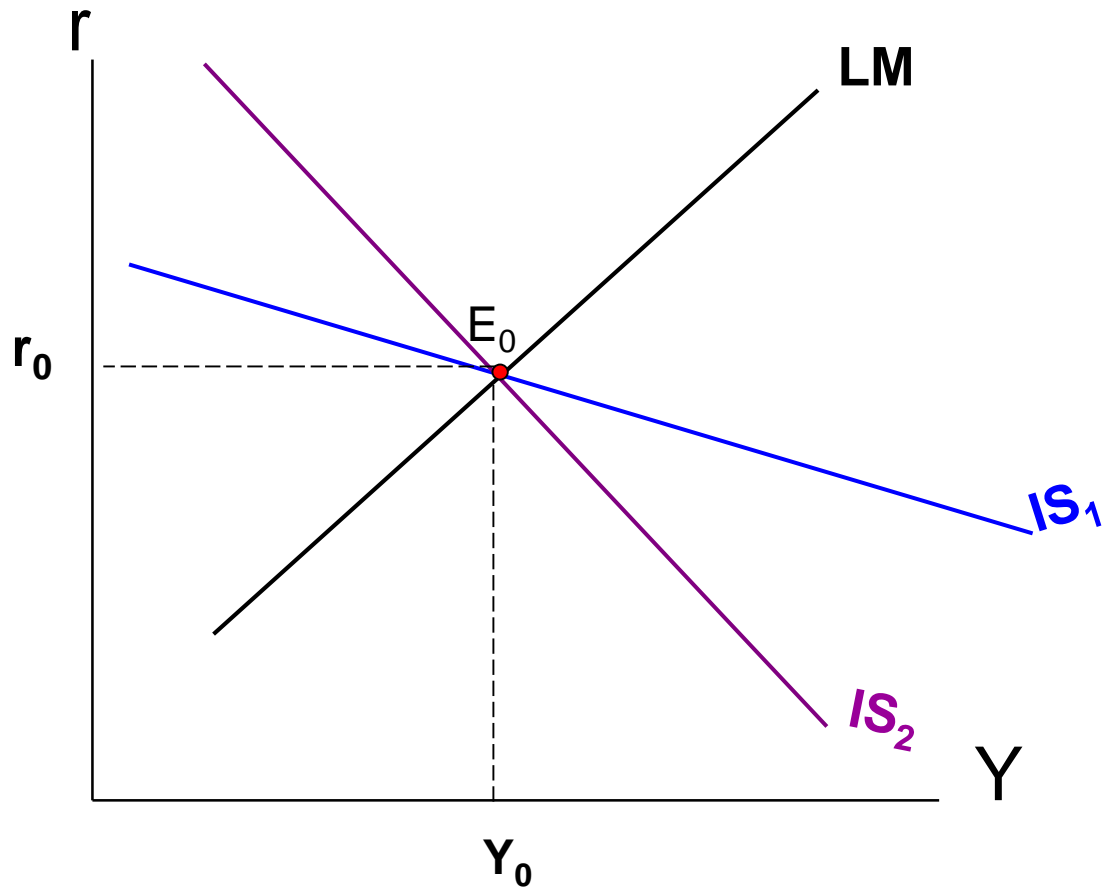


## 7.2 Monetary Policy Effectiveness

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**  $\varepsilon_{lr} = \frac{\Delta I}{\Delta r} \times \frac{r}{I}$



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



## 7.2.2 Monetary policy effectiveness and slope of LM curve

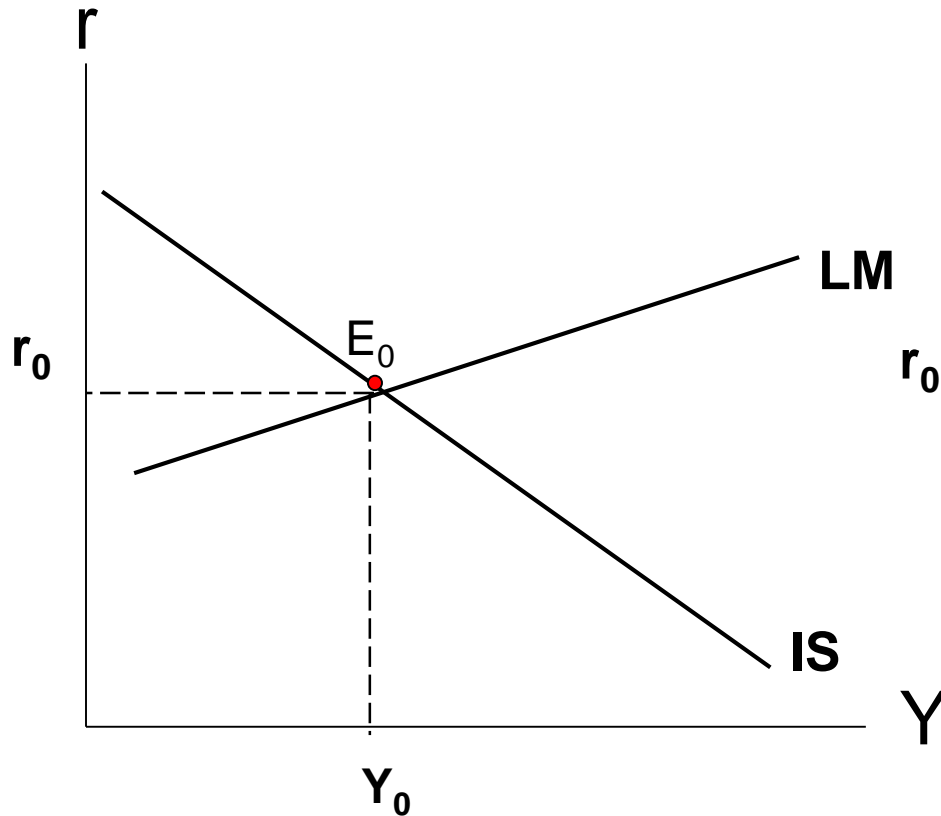
Slope of LM curve depends on

- $\cdot \quad \varepsilon_{M^d, r} = \frac{\Delta M^d}{\Delta r} \times \frac{r}{M^d} \quad \leftarrow \quad \text{focus on this one}$

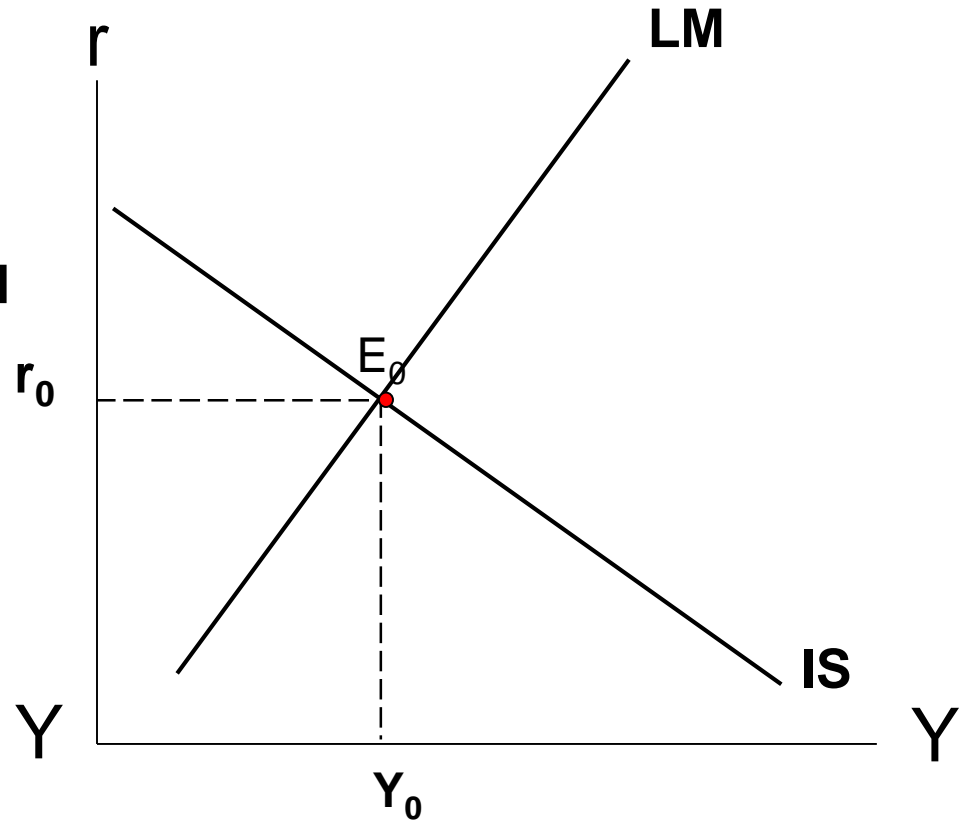
- $\cdot \quad \varepsilon_{M^d, Y} = \frac{\Delta M^d}{\Delta Y} \times \frac{Y}{M^d}$

## 7.2.2 Monetary policy effectiveness and slope of LM curve

(a) LM is quite flat

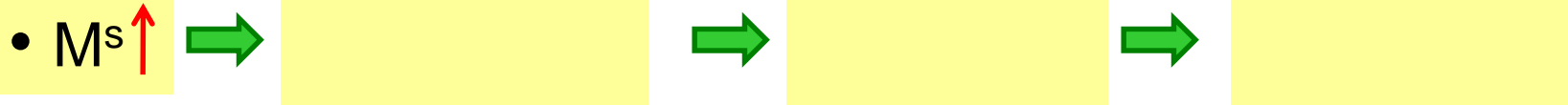


(b) LM is quite steep

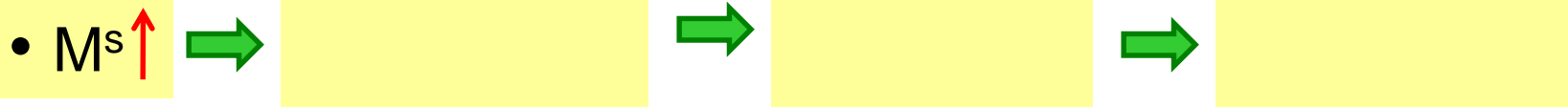


## 7.2.1 Monetary policy effectiveness and slope of LM curve

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



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



$\varepsilon_{M^d, r}$   $C_2$  high  
 $\varepsilon_{M^d, Y}$   $C_1$  equal

$\varepsilon_{M^d, r}$   $C_2$  low  
 $\varepsilon_{M^d, Y}$   $C_1$  equal

