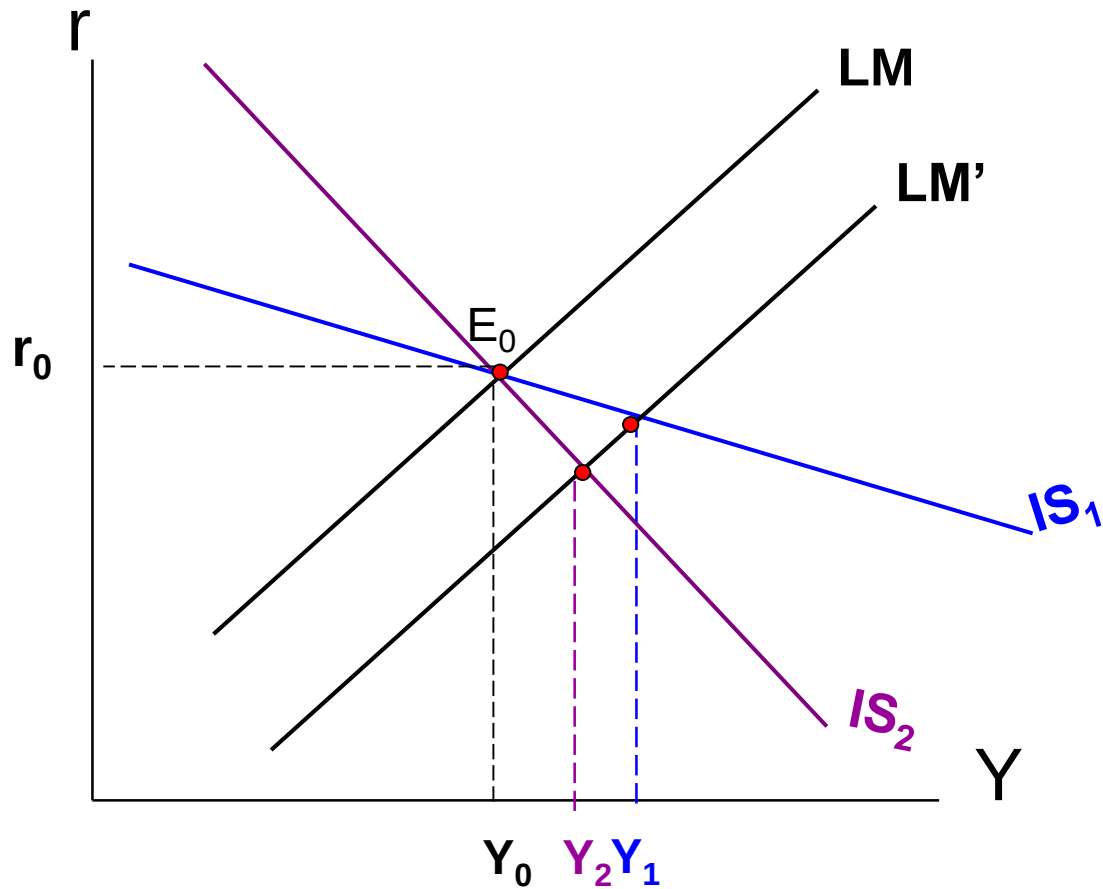


7.2 Monetary Policy Effectiveness

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

• $M^s \uparrow \Rightarrow r \downarrow \Rightarrow I \uparrow$ a lot $\Rightarrow$ DAE $\uparrow$ a lot $\Rightarrow Y \uparrow$ a lot

Monetary policy is very effective

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

• $M^s \uparrow \Rightarrow r \downarrow \Rightarrow I \uparrow$ a little $\Rightarrow$ DAE $\uparrow$ a little $\Rightarrow Y \uparrow$ a little

Monetary policy is not that effective

7.2.2 Monetary policy effectiveness and slope of LM curve

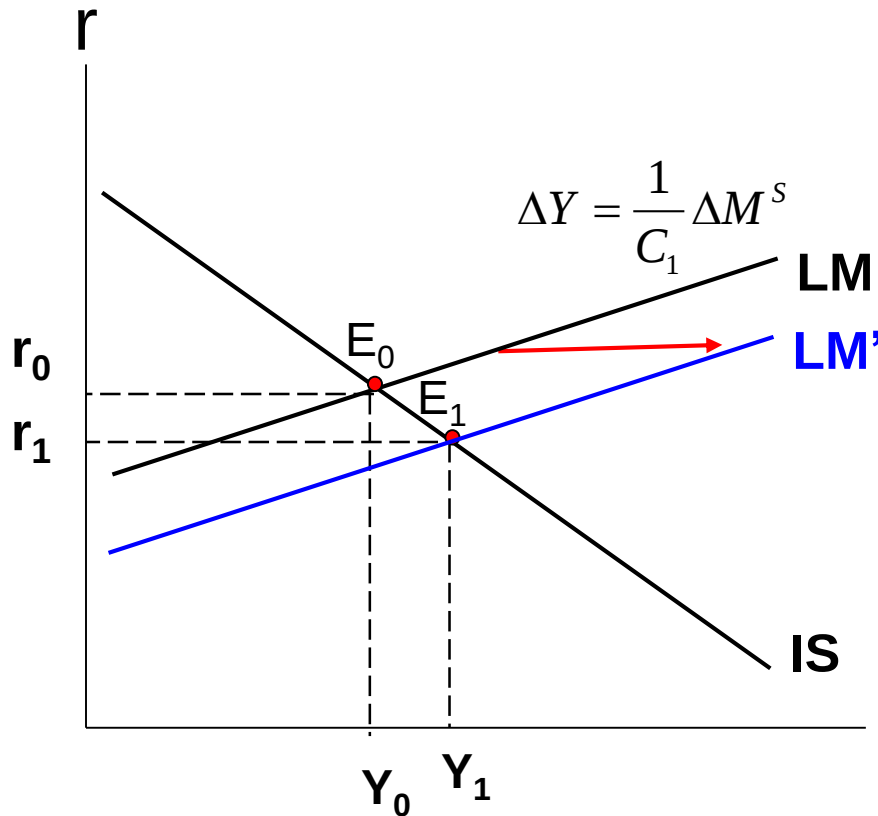
Slope of LM curve depends on

- $\epsilon_{M^d, r} = \frac{\Delta M^d}{\Delta r} \times \frac{r}{M^d}$  focus on this one

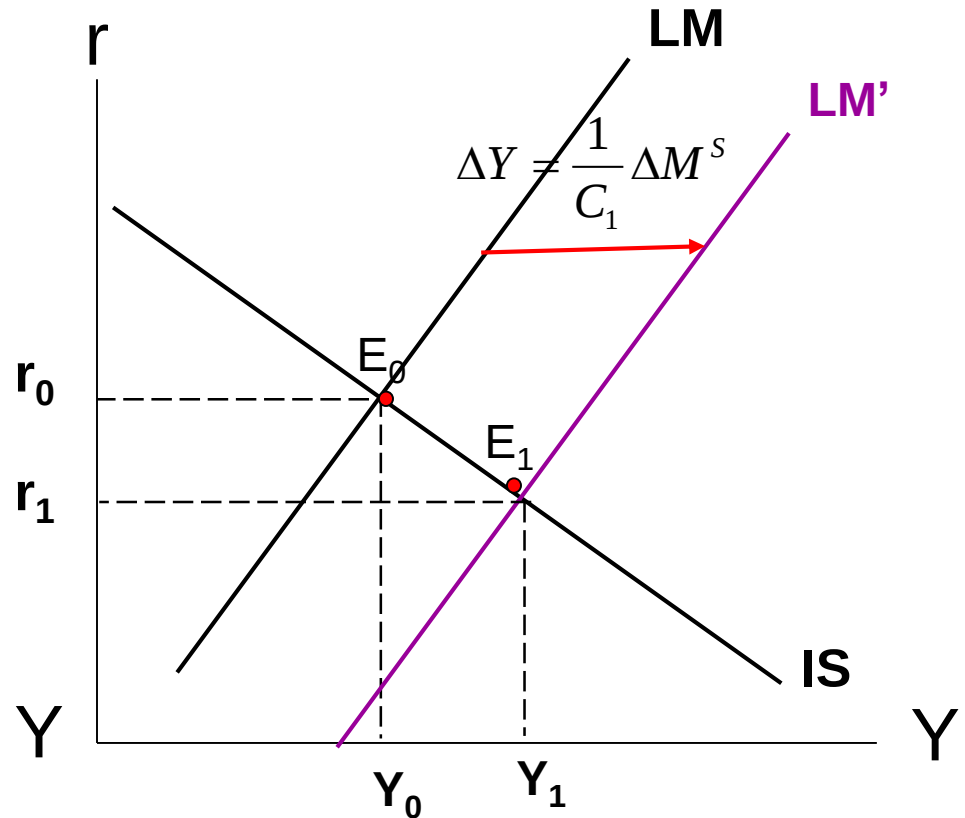
- $\epsilon_{M^d, Y} = \frac{\Delta M^d}{\Delta Y} \times \frac{Y}{M^d}$

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

• $M^s \uparrow \Rightarrow r \downarrow \text{ a little } \Rightarrow I \uparrow \text{ a little } \Rightarrow \text{DAE} \uparrow \text{ a little } \Rightarrow Y \uparrow \text{ a little}$

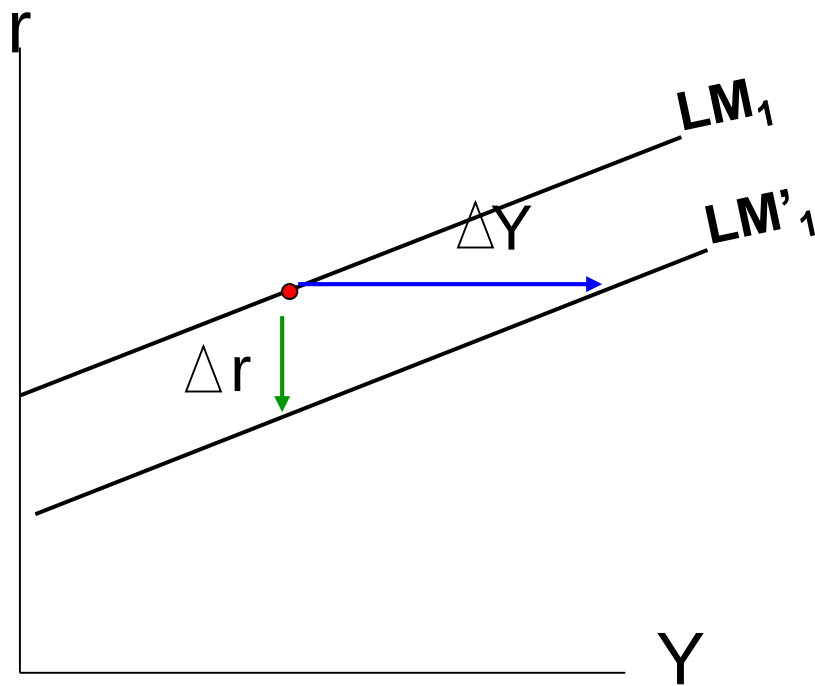
Monetary policy is not that effective

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

• $M^s \uparrow \Rightarrow r \downarrow \text{ a lot } \Rightarrow I \uparrow \text{ a lot } \Rightarrow \text{DAE} \uparrow \text{ a lot } \Rightarrow Y \uparrow \text{ a lot}$

Monetary policy is very effective

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



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

