BS2551 Money Banking and Finance

Seminar 6: IS-LM Solutions

a) Y=C+I+G=200+0.25*(Y-200)+150+0.25Y-1000i+250

Y=1100-2000i

b) Ms=Md 1600=2Y-8000i

i= Y/4000-1/5

c) Substituting b into a: Y=1000

d) Substituting c into b: i=1/20=5%

e) Y=1040, i=3%. A monetary expansion as a result of increased money supply reduces the interest rate and increases output.

f) Y=1200, i=10%. A fiscal expansion in the form of increased government spending, increases output and the interest rate.