

Basic Questions to Lecture 12

1. What are the two big variables we hold constant when drawing the LM curve?
2. In addition to the two big variables above, what other things do we hold constant when we draw the LM curve?
3. $MV = PY$ is the equation of exchange. What is V ? Explain how that Y/V is the same as the real demand for money?
4. What has been happening to V in the US since 2000. See the graph of V at FRED for M_2 .
5. Suppose that M increases. How does LM shift? What about an increase in P ?
6. Suppose V decreases. How would LM shift?
7. How do peoples' habits help to determine V and therefore the real demand for money?
8. Suppose that risk rises? How would that affect the real demand for money and the LM curve?
9. Under what conditions would the LM curve be flat? When would it be vertical?
10. The government wants to lower interest rates? How can it do this using the LM curve?