Basic Questions to Lecture 13

1. Suppose that government spending increases. Use IS-LM only to explain what happens to Y and r.
2. Suppose that taxes increase. Use IS-LM only to explain what happens to Y and r.
3. Suppose that the money supply increases. Use IS-LM only to explain what happens to Y and r.
4. Suppose that the price level decreases. Use IS-LM only to explain what happens to Y and r.
5. Suppose that both consumer and business confidence decrease. Use IS-LM only to explain what happens to Y and r.
6. Assume the LM is flat (a liquidity trap). Now increase M. What is the effect on Y and r?
7. Assume the LM is flat (a liquidity trap). Now increase G. What is the effect on Y and r?
8. Assume the IS is vertical (interest inelasticity of spending is zero). Increase M. What is the effect on Y and r?
9. Assume the IS is vertical (interest inelasticity of spending is zero). Increase G. What is the effect on Y and r?
10. Assume the LM is vertical (interest elasticity of money demand is zero) . Now increase G. What is the effect on Y and r. Try it again with an increase in M. What is the effect on Y and r?