Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Delete this before using. Worked well, but must explain what arrow indicators mean.

Barreto

Macro Topics

ISLM Equilibration

Draw the ISLM Model below with NoFeedback. You can look at your ISLM.xls workbook, but it’s better if you can do it from memory. Label the axes and all curves. Label equilibrium Y and r.

Increase the money supply. How will Y move to equilibrium in this model?

In the *NoFeedback* sheet, increase the money supply from 2.6 to 4.6. Excel confirms your work above, right?

Click the  button. How will the model equilibrate?

With NoFeedback, the money market 🡪 goods market, but there is no reverse connection. How will the equilibration process change when we “two-way” connect the markets, like this: money market 🡨🡪 goods market?

In the *NoFeedback* sheet, click the  button again. Suppose that money demand was a function of Y. How will the model equilibrate now?

So look, we’re at the famous bottom line! What is the purpose of the ISLM graph?

Proceed to your *Task1C* sheet.

Working in your group, experimenting with the  button and then using the Clear Goods and Money Market buttons, put the four arrow indicators on the ISLM graph below.

LM

r

IS

Y

When you are done, have someone from your group go to the board and draw your answer.

If the model equilibrated by Asset Market Equilibration (always being in equilibrium in the money market), how would this change each of the arrows of direction?

Again, when you are done, have someone from your group go to the board and draw your answer.

Each member of the group should do Task 1D. Be sure that you get at least one unstable and one stable cobweb equilibration and if not, click the Random Parameters button until you do.

Discuss with each other why the slopes of the IS and LM curves are crucial in determining cobweb stability and provide a consensus answer below.

Save your workbook.

What questions do you still have about equilibration in the ISLM model?

HW: Watch the 3 Group 2 screencasts and complete all 3 tasks (2A, 2B, and 2C by noon Mon in ISLM.xls.