Barreto

Macro Topics

The Money Market

Let’s review your answer to Task 1: Suppose Y rose to $20 trillion (from its initial value of $17 trillion). What would this do to the equilibrium interest rate?

Let’s be sure we understand why the *Lr* and *LrY* sheets are giving different answers. Click the *Show Algebra* button to make it crystal clear that it’s all about *LY*.

Task 2 asked you to explore the power of Fed policy when money demand is very inelastic. So, what did you do to the scroll bar for this question and what did you say? Draw a graph on the back of this handout.

Let’s do the opposite, money demand very elastic, and we’ll use the Scenario Comp Statics button to get some data with which to answer the question. Keep track of the steps below.

It’s pretty obvious that money demand is important in this model so let’s make sure we understand it. First, what is money demand?

Let’s do Task 3 together, using the Scenario Comp Statics button. Keep track of the steps below.

Can this be done another way? Yes. Scroll down to row 100 in the *L* sheet and let’s review.

HW: Watch the first 4 screencasts (under #1) and complete tasks 1A, 1B, and 1C by noon Fri in ISLM.xls.