# Macroeconomics II

## 1. Revisions of the IS-LM model

BSc in Economics

**Luís Clemente-Casinhas**

https://luisclementecasinhas.org/

ISCTE-IUL - Economics Department

February 8, 2024

# The IS Curve (goods market)

- The equilibrium in the goods market is given by the IS curve:

$$Y = C(Y - T) + I(Y, i) + G$$

where $C$ represents consumption as a function of available income, $Y - T$; $I$ gives investment as a function of income, $Y$, and the interest rate, $i$; and $G$ regards government expenditures.

# The IS Curve (goods market)

- Shifts in the IS curve: $T$ or $G$.
- Movements along the IS curve: $i$ or $Y$.

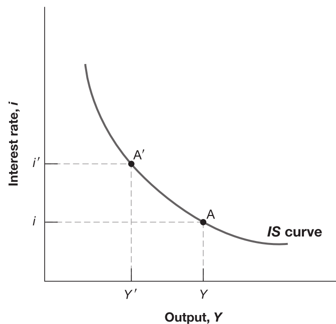


Figura 1: The IS curve.

# The LM Curve (financial markets)

- Money demand is given by:

$$M^d = pYL(i)$$

  where $pY$ represents nominal income as a proxy for the overall level of transactions in the economy; and $L(i)$ is a function of the interest rate.

- Money supply is assumed to be constant:

$$M^s = M$$

- The equilibrium in the financial markets occurs when the money supply equals the money demand.

# The LM Curve (financial markets)

- Shifts in the LM curve: $M$.
- Movements along the LM curve: $i$ or $Y$.

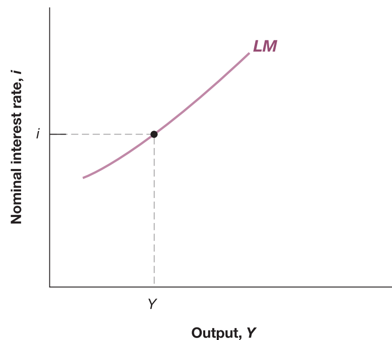


Figura 2: The LM curve.

# References


- Blanchard, O. (2017). *Macroeconomics. Global Edition.* (7$^{th}$ ed.). Routledge.