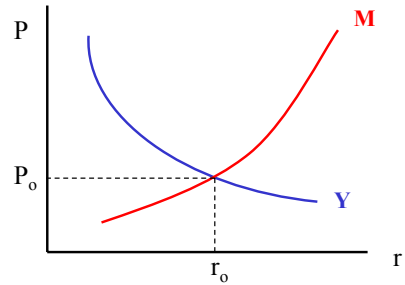


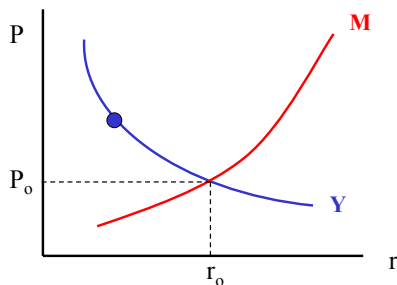
# Equilibrium in Two Markets

Practice

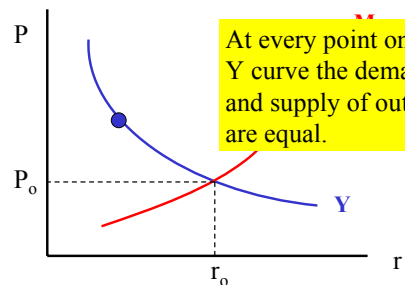
## The Y and M Curves



## The Y Curve

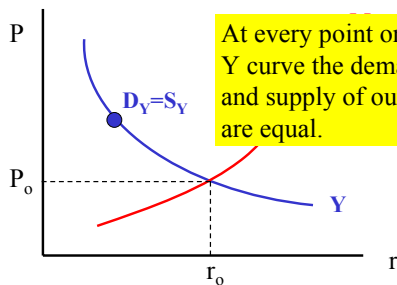


## Definition



At every point on the Y curve the demand and supply of output are equal.

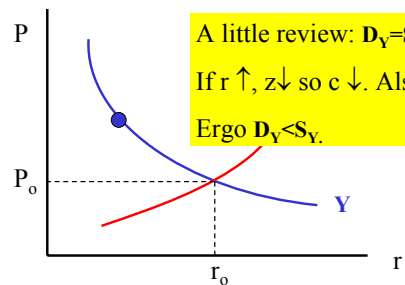
## Pick a Point



At every point on the Y curve the demand and supply of output are equal.

$$D_Y = S_Y$$

## A change in r

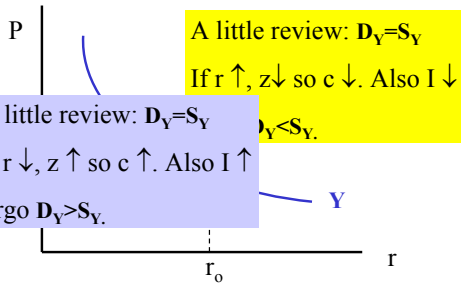


A little review:  $D_Y = S_Y$

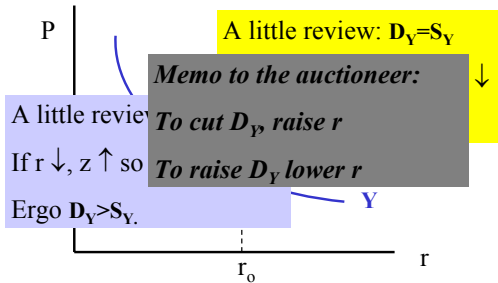
If  $r \uparrow$ ,  $z \downarrow$  so  $c \downarrow$ . Also  $I \downarrow$

Ergo  $D_Y < S_Y$ .

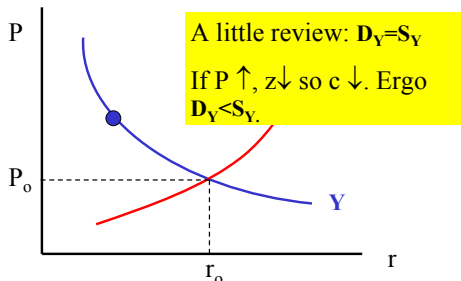
### A change in r



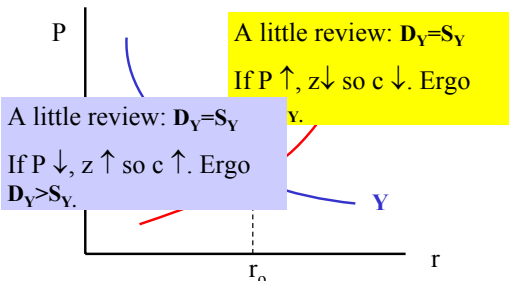
### Memo to the Auctioneer



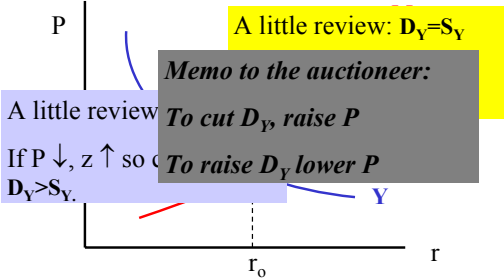
### A change in P



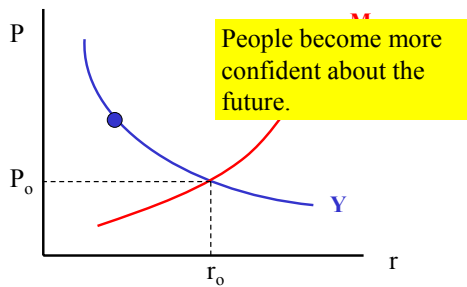
### A change in P



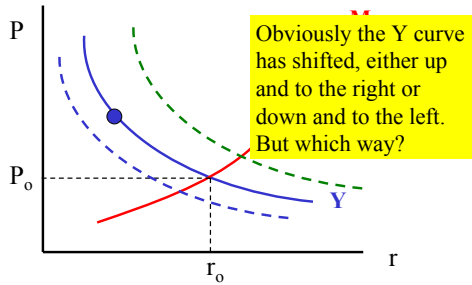
### Memo to the Auctioneer



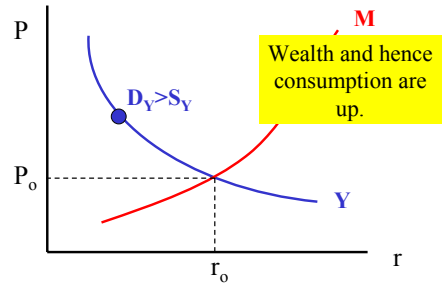
### Increased Confidence



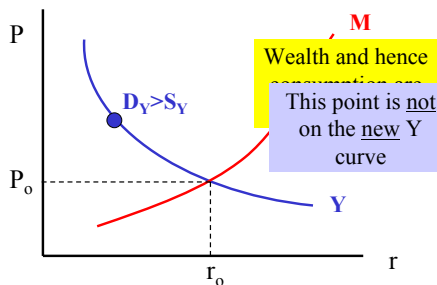
## The Shifting Y Curve



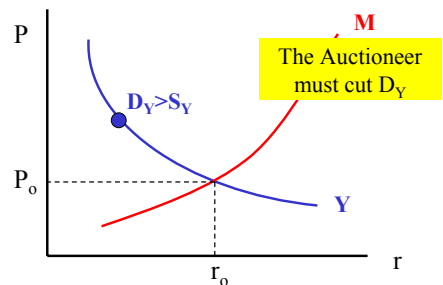
## Effect of Increased Confidence



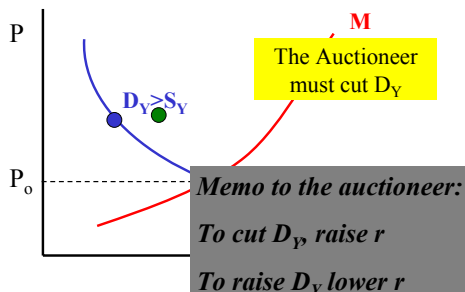
## The New Y Curve



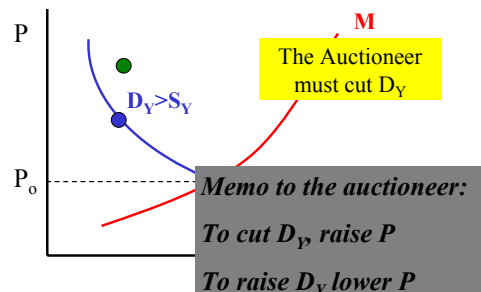
## Moving to the Y Curve



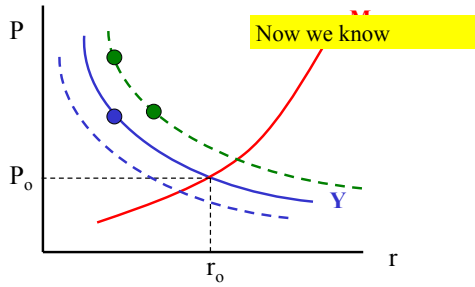
## What to do



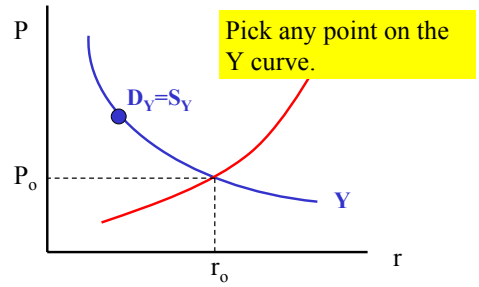
## What to do



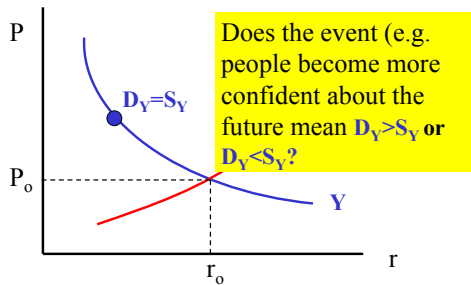
## The Y Curve



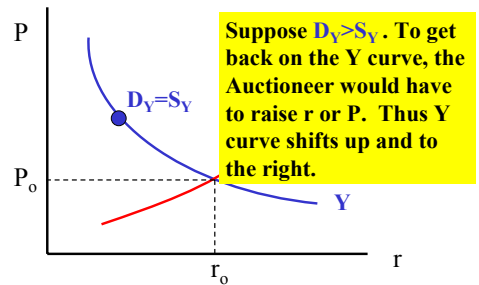
## Summary



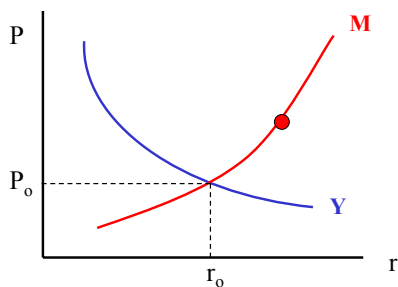
## Summary



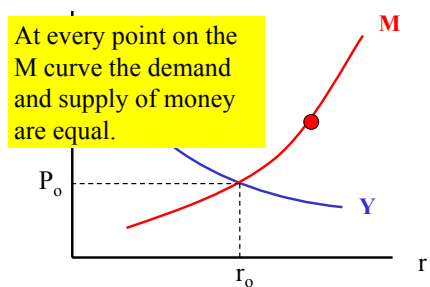
## Summary



## The M Curve

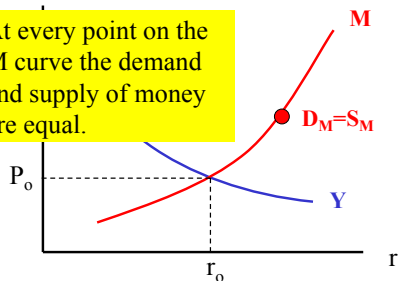


## Definition



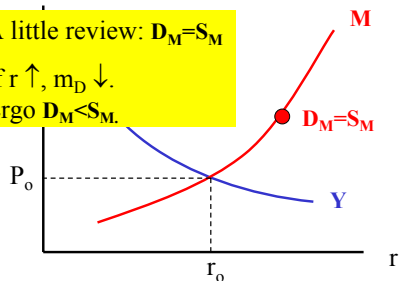
### Pick a Point

At every point on the M curve the demand and supply of money are equal.



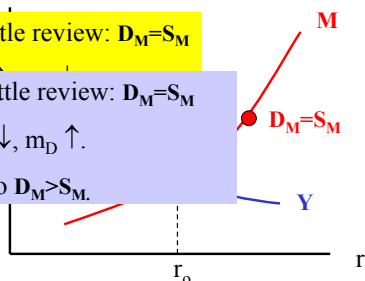
### A change in r

A little review:  $D_M = S_M$   
 If  $r \uparrow$ ,  $m_D \downarrow$ .  
 Ergo  $D_M < S_M$ .



### A change in r

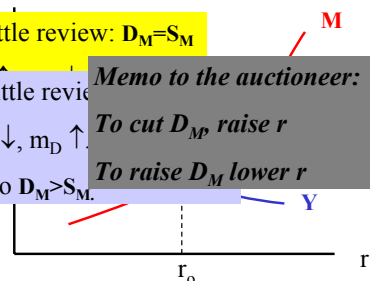
A little review:  $D_M = S_M$   
 A little review:  $D_M = S_M$   
 If  $r \downarrow$ ,  $m_D \uparrow$ .  
 Ergo  $D_M > S_M$ .



### Memo to the Auctioneer

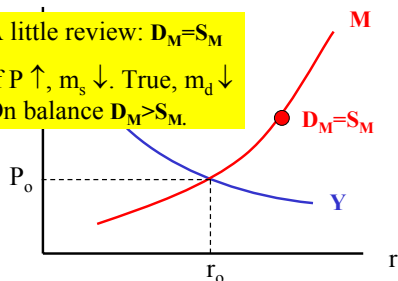
A little review:  $D_M = S_M$   
 A little review:  $D_M = S_M$   
 If  $r \downarrow$ ,  $m_D \uparrow$ .  
 Ergo  $D_M > S_M$ .

*Memo to the auctioneer:*  
 To cut  $D_M$  raise  $r$   
 To raise  $D_M$  lower  $r$



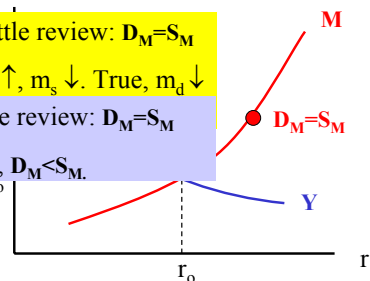
### A change in P e

A little review:  $D_M = S_M$   
 If  $P \uparrow$ ,  $m_s \downarrow$ . True,  $m_d \downarrow$   
 On balance  $D_M > S_M$ .



### A change in P

A little review:  $D_M = S_M$   
 If  $P \uparrow$ ,  $m_s \downarrow$ . True,  $m_d \downarrow$   
 A little review:  $D_M = S_M$   
 If  $P \downarrow$ ,  $D_M < S_M$ .



## Memo to the Auctioneer

A little review:  $D_M = S_M$

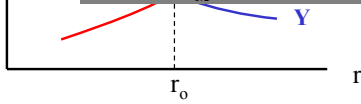
If  $P \uparrow$ ,  $m_s \downarrow$ .

A little review

To cut  $S_M$  raise  $P$

If  $P \downarrow$ ,  $D_M < S_M$ .

To raise  $S_M$  lower  $P$

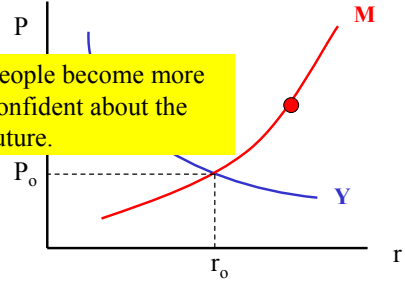


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## Increased Confidence

People become more confident about the future.

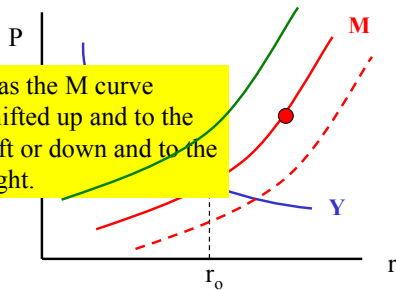


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## The Shifting M Curve

Has the M curve shifted up and to the left or down and to the right.

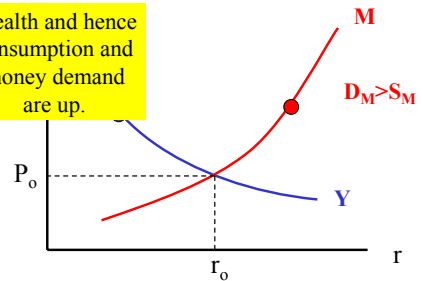


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## Effect of Increased Confidence

Wealth and hence consumption and money demand are up.



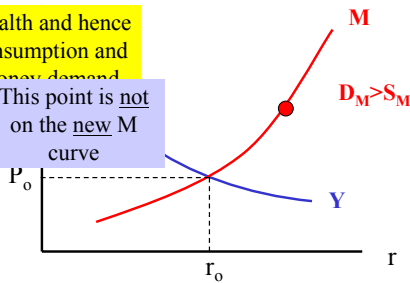
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## The New M Curve

Wealth and hence consumption and money demand

This point is not on the new M curve

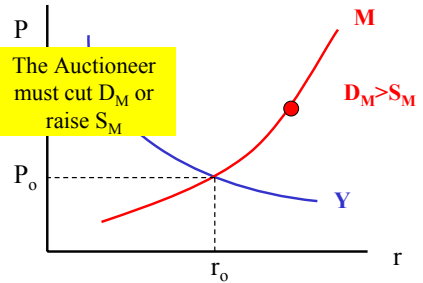


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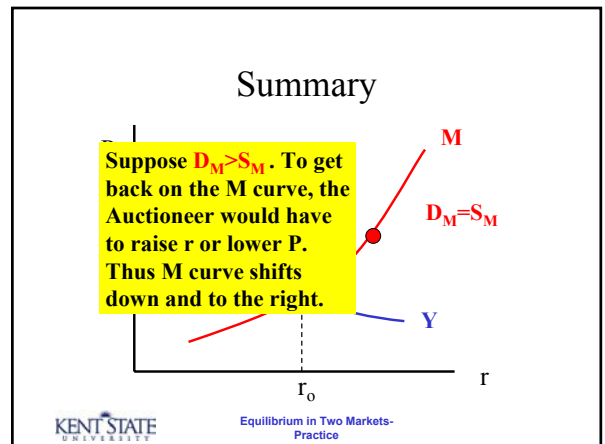
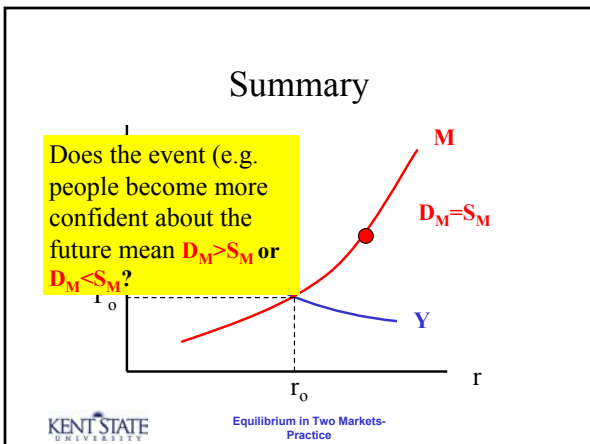
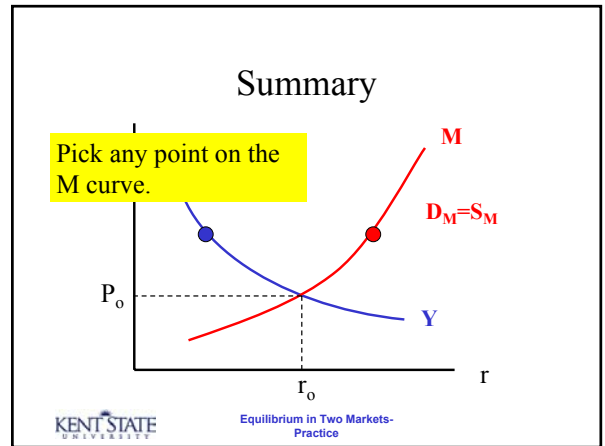
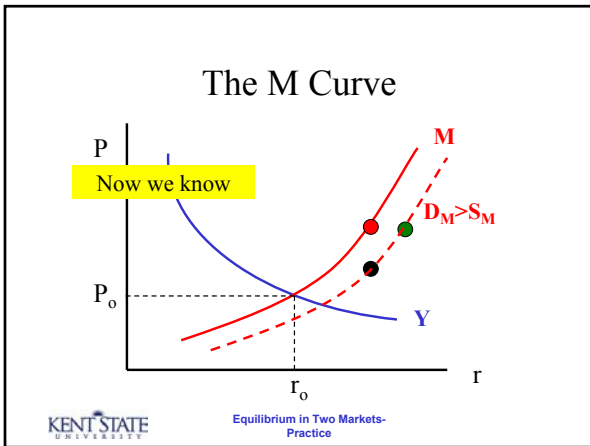
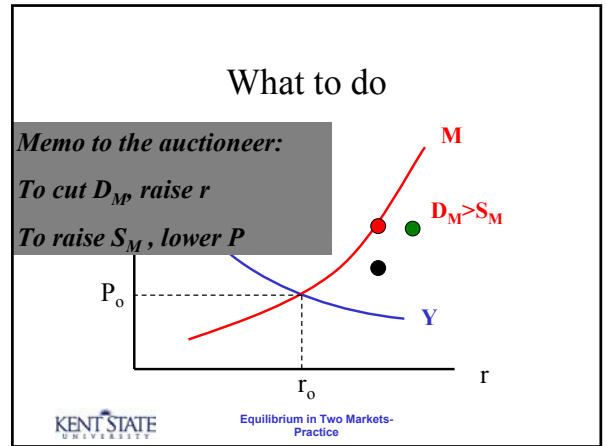
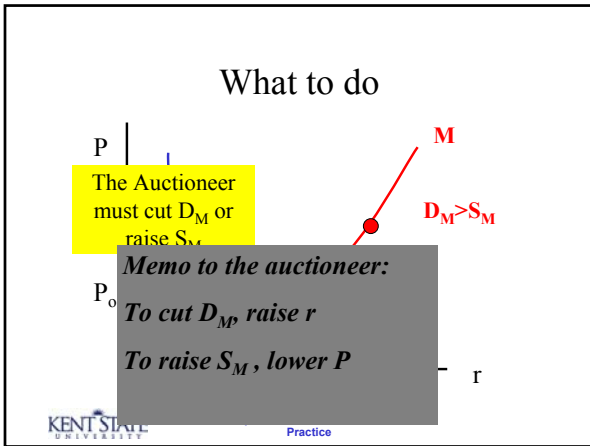
## Moving to the M Curve

The Auctioneer must cut  $D_M$  or raise  $S_M$



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## Summary

Suppose  $D_M > S_M$ . To get  
back on the M curve, the

Auctioneer  
to raise  $r$   
Thus M c  
down and

*And, once we know  
how the Y and M  
curves shift, the rest is  
easy.*

$r_0$

End

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