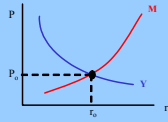
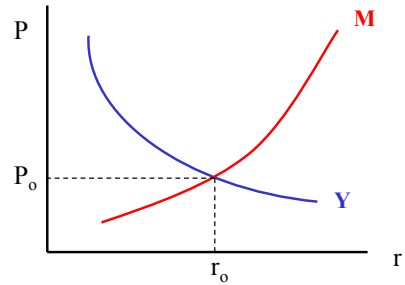


Equilibrium in Two Markets

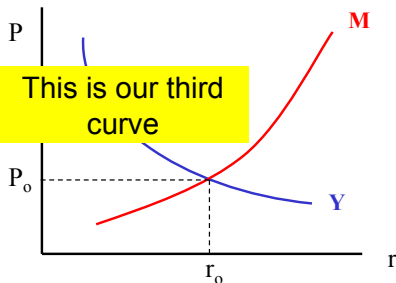
Basics 1



The Y and M Curves



The Y and M Curves



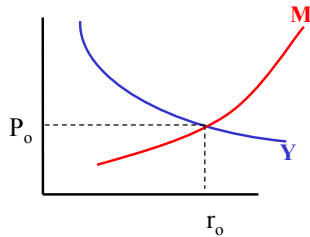
The Auctioneer's Two Tasks

$$Y = C + I + G + (X - M)$$

$$M^D = M^S/P$$

The Auctioneer's Two Tasks

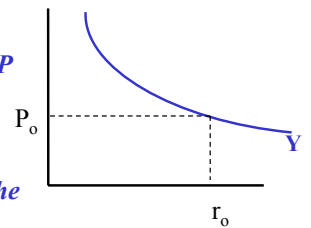
$$Y = C + I + G + (X - M)$$



The Y Curve

$$Y = C + I + G + (X - M)$$

- Combinations of P and r that equate the demand and supply of output (Equilibrium in the Goods Market)

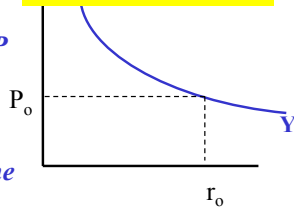


The Y Curve

$$Y = C + I + G + (X - M)$$

This is not a demand curve

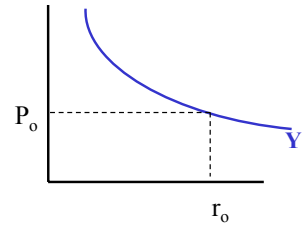
- Combinations of P and r that equate the demand and supply of output (Equilibrium in the Goods Market)



The Y Curve

$$Y = C + I + G + (X - M)$$

$$Y = C(P, r) + I(r) + G + (X - M)$$

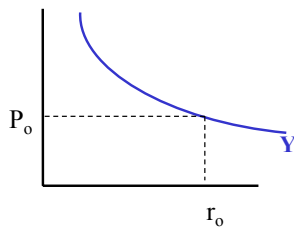


Consumption Demand

$$Y = C + I + G + (X - M)$$

$$Y = C(P, r) + I(r) + G + (X - M)$$

→ $P \uparrow \Rightarrow C \downarrow$

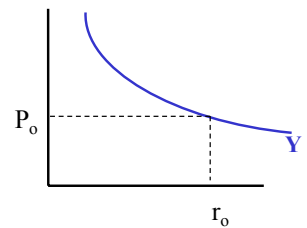


Consumption Demand

$$Y = C + I + G + (X - M)$$

$$Y = C(P, r) + I(r) + G + (X - M)$$

→ $r \downarrow \Rightarrow C \uparrow$



Investment Demand

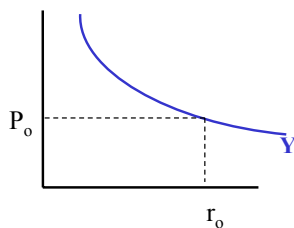
$$Y = C + I + G + (X - M)$$

$$Y = C(P, r) + I(r) + G + (X - M)$$

→ $P \uparrow \Rightarrow C \downarrow$

→ $r \downarrow \Rightarrow C \uparrow$

→ $r \downarrow \Rightarrow I \uparrow$



Raising P

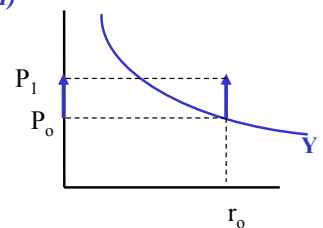
$$Y = C + I + G + (X - M)$$

$$Y = C(P, r) + I(r) + G + (X - M)$$

→ $P \uparrow \Rightarrow C \downarrow$

→ $r \downarrow \Rightarrow C \uparrow$

→ $r \downarrow \Rightarrow I \uparrow$



Compensating

$$Y = C + I + G + (X - M)$$

$$Y =$$

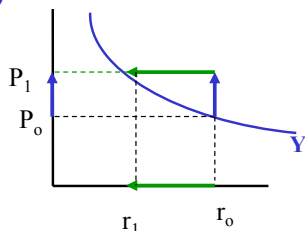
$$C(P, r) + I(r)$$

$$+ G + (X - M)$$

$$P \uparrow \Rightarrow C \downarrow$$

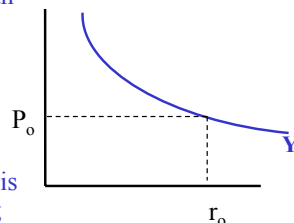
$$\rightarrow r \downarrow \Rightarrow C \uparrow$$

$$\rightarrow r \downarrow \Rightarrow I \uparrow$$

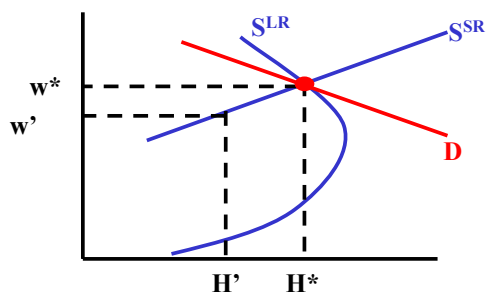


The Downward Sloping Y Curve

- The Auctioneer can raise P and still keep the goods market in balance. But, to do so, he must lower r .
- Ergo, the Y curve is downward sloping

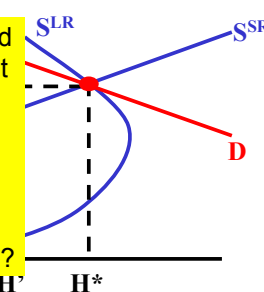


Supply Changes



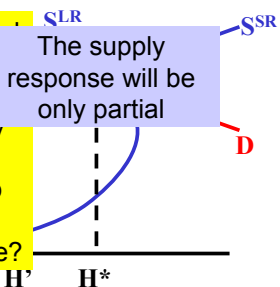
Supply Changes

If P rises, demand falls. What about the supply response? Why does r have to decline to keep demand and supply in balance?



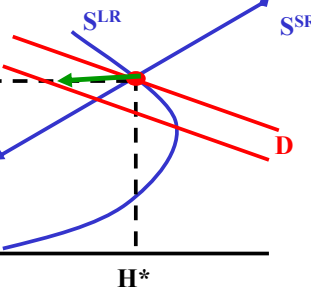
Supply Changes

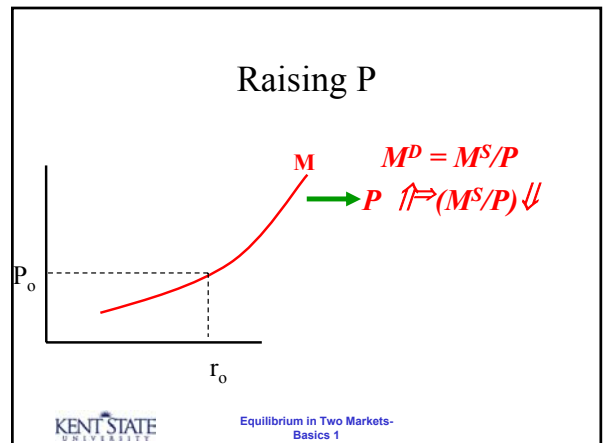
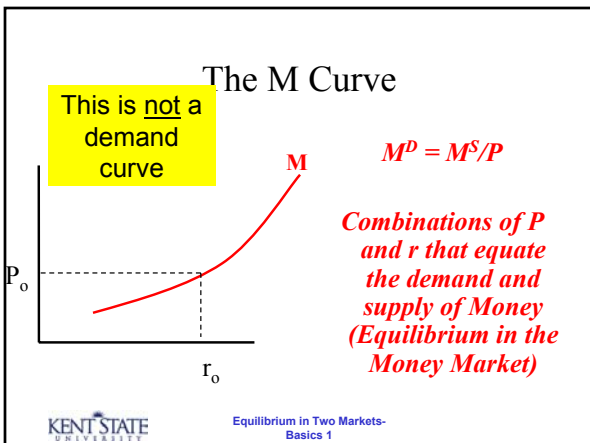
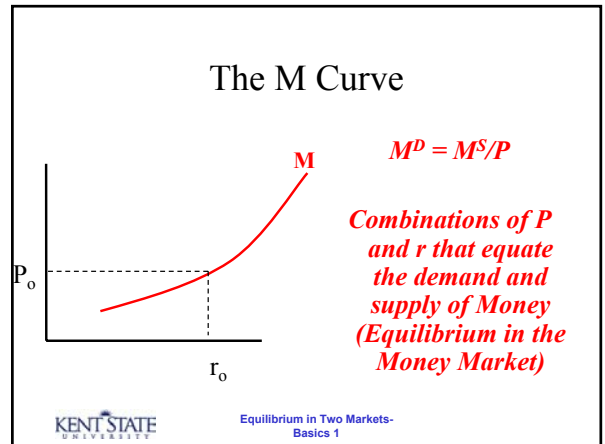
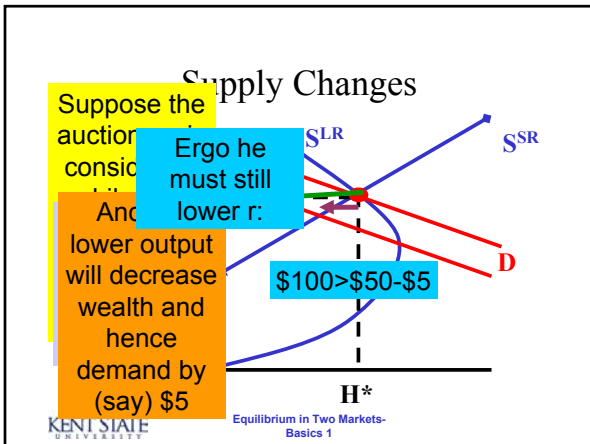
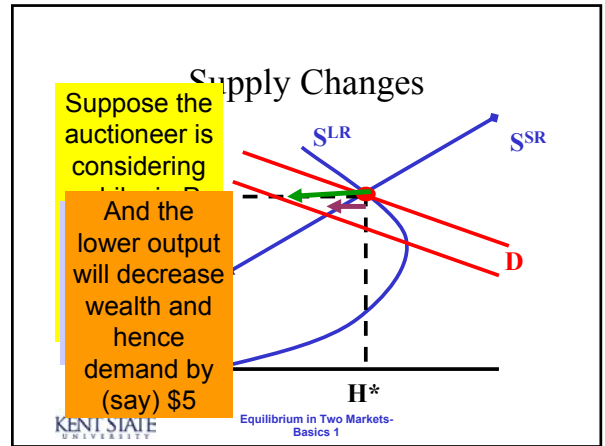
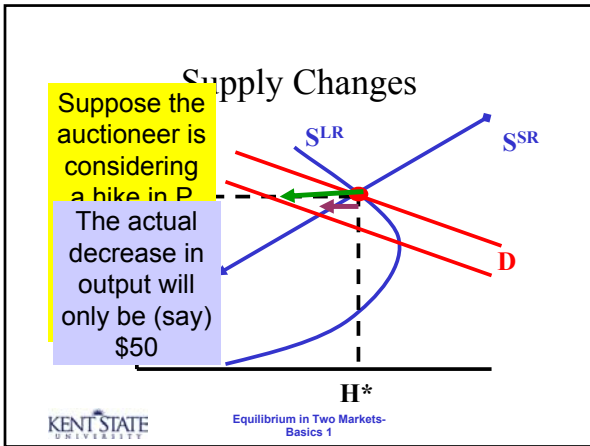
If P rises, demand increases. What about the supply response? Why does r have to decline to keep demand and supply in balance?



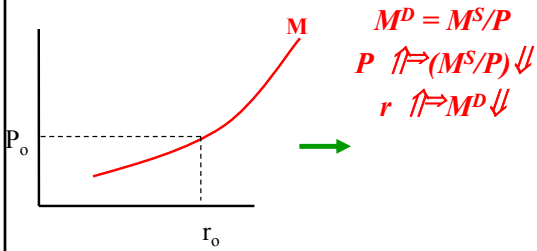
Supply Changes

Suppose the auctioneer is considering a hike in P which reduces demand by \$100

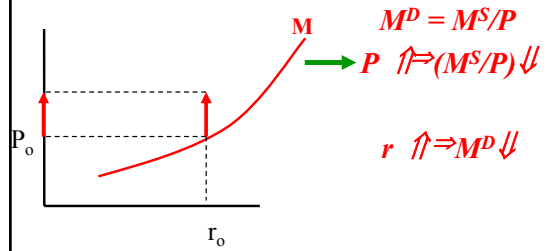




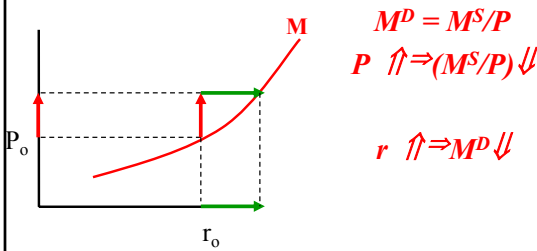
Raising r



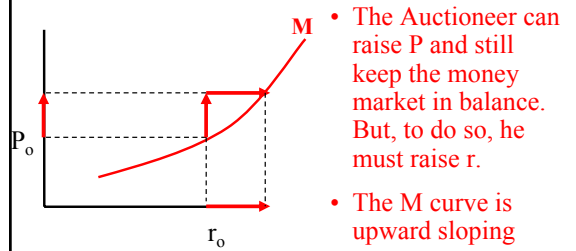
Raising P



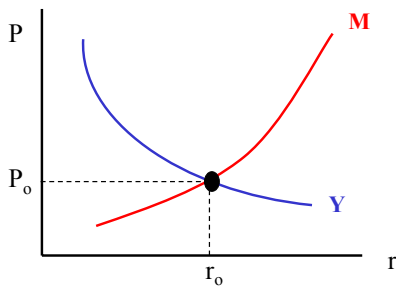
Compensating



The Upward Sloping M Curve



The Y and M Curves



End

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