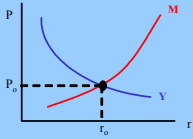
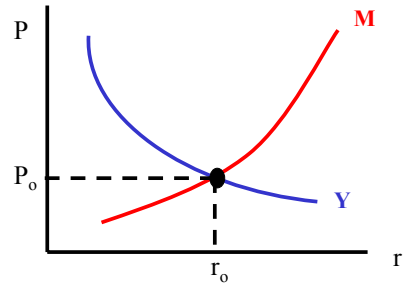


Equilibrium in Two Markets



Basics 2

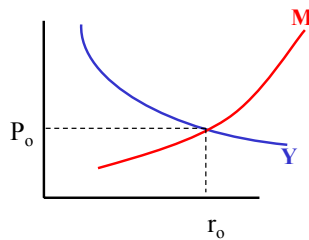
The Y and M Curves



Equilibrium in Two Markets- Basics 2

A Mathematical Digression

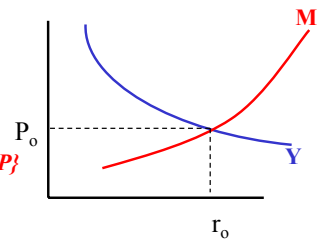
- $Y^S = Y^D(P,r)$
- $M^D(P,r) = M^S/P$
- *Two equations; two unknowns*



Equilibrium in Two Markets- Basics 2

A Mathematical Digression

- $Y^S = Y^D(P,r)$
- $M^D(P,r) = M^S/P$
- *Y Curve =*
 $\{P,r \mid Y^S = Y^D(P,r)\}$
- *M Curve =*
 $\{P,r \mid M^D(P,r) = M^S/P\}$



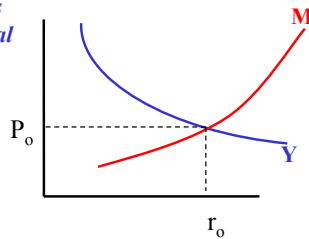
Equilibrium in Two Markets- Basics 2

Why the graphical solution?

- *Work with equations and get into empirical debates. E.g.*

$$\frac{\Delta c}{\Delta z} > 0$$

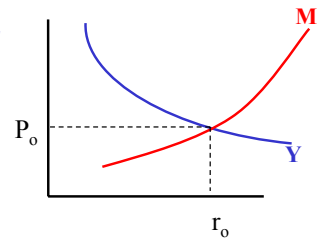
$$\frac{\Delta c}{\Delta z} = ?$$



Equilibrium in Two Markets- Basics 2

Why the graphical solution?

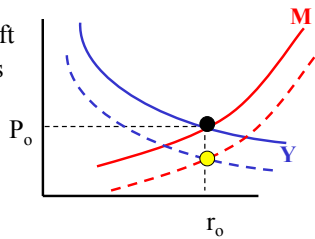
- *Work with overly simplified equations*



Equilibrium in Two Markets- Basics 2

The four cases (4)

- Y curve shifts down and to the left
- The M curve shifts down and to the right.
- Price level falls.
- Effect on interest rate is ambiguous.



A Summary Table

Y Curve Shifts	M Curve Shifts	P	r
Up and to the right	Up and to the left	↑	?
Up and to the right	Down and to the right	?	↑
Down and to the left	Up and to the left	?	↓
Down and to the left	Down and to the right	↓	?

A Summary Table

Y Curve Shifts	M Curve Shifts	P	r
Up and to the right	Up and to the left	↑	?
Up and to the right	Down and to the right	?	↑
Down and to the left	Up and to the left	?	↓
Down and to the left	Down and to the right	↓	?

Warning: this table is potentially hazardous to your health

What is Coming

- More Exercises
- Then More Exercises
- Then Some Applications

End

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