Suppose the product and money market model are given as;

S = -20+0.5Y Mt = 0.5Y

I = 200 - 2000i MSP = 100-1500i

Ms =150

Do you think the economy is in equilibrium ?Show the necessary calculations.

Solution

Since at equilibrium Ms = Md = Mt + Msp and I = S:

0.5Y + 100 - 1500i = 150

-20 + 0.5Y = 200 - 2000i

0.5Y - 1500i = 50

0.5Y + 2000i = 220

After we substract first equation from the second, we get:

3500i = 170

i = 170/3500 = 0.0486

Y = (220 - 2000*0.0486)/0.5 = 245.71