May 2020

OfficeHours_IS19_20160425_Seg03.pdf

Setting: IS19 helps a student prepare for an upcoming exam.

Participants: IS19 (ITA ; male, blue shirt), S1 (student, female, gray sweatshirt)

0:00

XXX IS19: sorry for the (.) inconvenience
XXX S1: ((opens a document on her computer))
XXX ((points to problem))
XXX to (.) the c?
XXX IS19: number three (.) part c?
XXX (topic)
XXX expenditure increase by (.) 250 without
XXX changing the tax so (.)
XXX um (.)
XXX that is the (.) delta G,
XXX the government-
XXX increase in government expenditure is (.)
XXX two hundred and fifty
XXX and (.) it (.) uh
XXX to see what is the change in the- (.)
XXX in the IS curve.
XXX so (.) remember you should use this formula.
XXX ((mathematical formula)) (one over one minus)
XXX (MPC times delta G)
XXX and you calculate this number.
XXX S1: and (.) is (not given) the MPC,
XXX IS19: it's- ((pointing)) it's this one.
XXX MPC if you have the consumption function
XXX then the MPC is this (.) coefficient.
XXX S1: zero point=
XXX IS19: =zero point eight.
XXX yes.
XXX it always (.) this value.
XXX S1: ((writing))
XXX and um (.)
XXX we have the- (.3)
XXX the change in,
XXX IS19: yeah income.
XXX S1: °income°
XXX IS19: and (.) uh (.)
XXX you add this number into th- your (.)
XXX previous (.)

XXX uh (.) IS curve.
XXX so what do you have (got this)?
XXX ((looking through papers))
XXX ((points))
XXX is this one right?
XXX and you just add these number (.2)
XXX ((circling something in pencil))
XXX into this (.) constant.
XXX so in part D you have calculated uh (.2)
XXX the IS curve.
XXX ((reading))
XXX °so°
XXX I mean first you should calculate (.)
XXX ((pointing to S1's paper))
XXX uh you should simplify this (.)
XXX this (equation). (.2)
XXX and get uh (.2)
XXX ((reading off of computer))
XXX °so it's the part B,°
XXX and (.) whose (market) is in (.)
XXX (equilibrium)
XXX S1: ((pointing)) and the=
XXX IS19: =uh (.) yeah.
XXX S1: and (.) did the (.) IS graph.
XXX IS19: yeah
XXX S1: and when the (.2) and (.)
XXX (will it) increase the (.) income in the (.) graph
XXX ((indiscernible))
XXX IS19: uh: no because, (.)
XXX here there is a condition that Y is constant.
XXX and equal to this long (variable) five thousand.
XXX so (.) first you should in part b you should get this
XXX IS curve.
XXX and then you set this Y equal to (.)
XXX five thousand because it- it is constant
XXX and equal to this (long variable).
XXX so you cannot (.) change this (.) income.
XXX S1: isn't (.) this graph (correct)?
XXX IS19: hold on ((alt trans: no))
XXX you should (.) you should draw like this
XXX because your (.) income is fixed-
XXX is a fixed variable. ((alt trans: value))
3:00

XXX S1: so wouldn’t the: (.)
XXX in the long run the income is fixed?
XXX IS19: yes.
XXX because ((pointing))
XXX you see in the: condition (.) here.
XXX income is constant and equal to this (.)
XXX long variable.
XXX five thousand.
XXX this tells you the Y is fixed (.) ((pointing))
XXX °in the long run.
XXX and you cannot change,
XXX ((watching S1 write))
XXX S1: and (then do)-
XXX IS19: so in part b you should (.) plot this number.
XXX Y equals to five thousand into this (.) equation
XXX and you can solve for the (.) increase rate.
XXX S1: um (.) and the- the results of this
XXX equals this (.) point zero?
XXX because the Y is (didn’t change).
CLF IS19: uh: oh. (.) wait.
CLF ((reading))
CLF increase by (.) what would be ((indistinguishable))
CLF oh (.) yes. sorry.
CLF I-I-I made a mistake so (.)
CLF I forgot that (.) this question is the- (.)
XXX so.
XXX uh (.2)
XXX yes. Y- this Y meets the-
XXX uh the income equilibrium.
XXX that means (.) that you at least number
XXX that this IS curve will shift.
XXX so this (.) IS curve will be different but this (.2)
XXX income equilibrium will be the same.
XXX so this is your previous (.) IS curve.
XXX which you calculated in part B.
XXX and this is your new IS curve.
XXX and to (.) solve for this IS curve, you need to calculate
XXX this (.)
XXX ((unintelligible)) MPC times delta G.
XXX so that’s two different things.
XXX ((pause))
XXX ((points to S1’s paper))
XXX you calculate this-

XXX this is not um (.) the:
XXX changing income equilibrium.
XXX it's just the change in this
XXX uh our IS curve.
XXX you calculate this because you want to calculate this.
XXX you wanna compute this new IS curve.
XXX not for the (.) um (.)
XXX income equilibrium. (.2)
XXX so (.2) so this Y is uh (.)
XXX is the (.) income equilibrium.
XXX it's the intersection.
XXX but (.) here what you calculated for this delta Y
XXX is the- (.2)
XXX is the (.1) difference in these two curves.
XXX S1: uh (.) then you this (.) (fraction) ((indistinguishable))
XXX IS19: you- you need this to cal- compute
XXX this newer IS curve.
XXX S1: °IS curve°
XXX IS19: and- (.1)
XXX and this Y,
XXX this income is always fixed.
XXX so (.) and then you can find its equilibrium
XXX and for this equilibrium,
XXX you (S) always (.) this value five thousand
XXX but you increase rate will be different.
XXX it won't shift (.) from this line to
XXX this one,
XXX S1: can you show me the=
XXX IS19: =ok.
XXX sure.
XXX the first for part b you can use this (.)
XXX function to calculate the IS curve right?
XXX and you
6:00
XXX set Y equals to five thousand because
XXX it is fixed (.) in the long run.
XXX it's constant in the long run.
XXX and you plug this number in-
XXX into this equation
XXX you will get a (little) for
XXX increase rate.
XXX that is for (.) part b and from the (.) graph,
XXX it is this point.

XXX this is your IS curve.
XXX S1: [(this?)
XXX IS19: [this is (.)
XXX the Y equals to seven thousand (minus),
XXX S1: and the R one (.) is,
XXX IS19: R one is this number.
XXX when (.) the (.) income level is: (.)
XXX seven thousand,
XXX °this is your intersection.
XXX this intersection is the income.
XXX ((pause))
XXX S1: ((mumbles))
XXX IS19: this is (.) what you want because you want to calculate
XXX you al- you always want to calculate the (.)
XXX equilibrium increase rate.
XXX so you must (.) find this (.) uh intersection.
XXX S1: um,
XXX IS19: and for part c,
XXX you calculate this delta Y because
XXX you want to calculate this new IS curve.
XXX so if there is an increase in government expenditure
XXX this IS curve will shift to the (.) right.
XXX right,
XXX and you want to (.) find out (.)
XXX °uh° what is the exact (.1)
XXX shift to this,
XXX S1: so this is the (.) delta Y?
XXX IS19: yes.
XXX S1: ok
XXX IS19: exactly.
XXX so when you find this delta Y
XXX you will add this (.) number directly into (.)
XXX ((circling with pencil))
XXX this one this constant. (.2)
XXX so (.) so that may (.)
XXX that may do this because in this case it’s (.2)
XXX it’s one over
XXX one minus zero point eight.
XXX (this equation) times (.) delta (.) G which is
XXX two hundred (.) fifty.
XXX so it’s (.)
XXX one (.) divided by (.) zero point two,

XXX times (.2) ((leans in towards computer to read))
XXX two hundred fifty.
XXX it's one thousand (.2)
XXX one thousand two hundred and fifty. (.)
XXX right,
XXX and you add this number (.2)
XXX to the constant term of the previous (.) value
XXX one thousand two hundred fifty so it becomes
XXX eight thousand (.) two hundred and fifty.
XXX so (.) this one is your new (.) IS curve.
XXX so you (.) plot it in the graph
XXX this is your new IS curve.
XXX S1: and,
XXX this is when the (.1)
XXX um Y is equal to zero,
XXX so,
XXX we get the ((indistinguishable))-
XXX IS19: yeah Y is (.)
XXX always equal to five thousand.
XXX and (.)
XXX the intersection of (.) this line this (.)
XXX ((hand gesture))
XXX (vertical) line.
XXX with this (.) new IS curve.
XXX this intersection.
XXX S1: °ok°
XXX IS19: is the (.) new equilibrium
XXX and you solve it for the new increase rate.
XXX S1: °(alright).
XXX and then, um,
9:05
XXX this one.
XXX (four fifteen)?
XXX IS19: ((reading))
XXX ((indistinguishable))
XXX so (.3)
XXX so just (center) on this part
XXX so (.) it will increase the e- expected inflation.
XXX so if there is uh
XXX ((pause while he points))
XXX ((indistinguishable)) means ah (.)
XXX so you do not- (.)
XXX don't uh worry about this word.

XXX I1: [ok
XXX IS19: [uh
XXX you only need to (.)
XXX pay attention to this words
XXX increase e-ex-expected inflation.=
XXX I1: =ok=
XXX IS19: =so that means, uh
XXX if the expected inflation increase,
XXX that means your demand (.)
XXX to hold money (.) will (.)
XXX decrease.
XXX ((hand gesture))
XXX will go down.
XXX S1: [((inaudible))
XXX IS19: [because
XXX uh a increase in the expected (.) um inflation means
XXX the val- uh the value of the money,
XXX will go down.
XXX S1: the price now (it will) (.)
XXX [decrease?
XXX IS19: [no there is no (price) level [here
XXX S1: [oh
XXX IS19: so only (.) the value of the money
XXX it (.) must go down because
XXX there is a increase in the (.) inflation
XXX in the (.) expected inflation.
XXX S1: ((nodding))
XXX IS19: so if there is (.)
XXX ((hand gesture))
XXX higher inflation that means
XXX your (.) money is less valuable
XXX S1: [so then (.) ((inaudible))
XXX IS19: [it will
XXX cause a decrease in your money demand.
XXX S1: mm.
XXX and uh,
XXX IS19: and then you can (.2)
XXX ((gets piece of paper))
XXX ((starts writing))
XXX uh show it in the (.) graph in a
XXX (L- LM) curve.
XXX ((watching S1 write)
XXX yes so

XXX ((writing))
XXX so remember this graph (.) is for the (.)
XXX money to (equilibriate)
XXX uh (.) no that me-
XXX I mean
XXX if you can (.) remember the result for the IS curve
XXX so this is the
XXX ((grabs an eraser))
XXX ((erases))
XXX LM curve
XXX because (.) the money to (reach) demand
XXX will only uh effect LM curve
XXX [right?
XXX S1: [yes
XXX IS19: so (.) this is your LM curve
XXX and if you have a (.) decrease in the (.)
XXX real money demand (.)
XXX then it will shift to the (.) right.
XXX because it's (money demand).
XXX if (.) there is an increase in money supply
XXX uh- uh- sorry (.) decrease in money demand.
XXX your money demand goes down.
XXX S1: yeah.
XXX IS19: so the (.) LM curve shift (.) to the right.
XXX but if your money supply goes down it will shift (.)
XXX to the left.
XXX so they have (.)
XXX opposite effect.=
XXX S1: =so the LM it (relate) to the (.)
XXX [money supply?
XXX IS19: [money-
XXX and money demand.
XXX both- both of these (.) factors will
XXX effect this
XXX LM curve.
XXX but they have opposite effect.
XXX S1: oh:.
XXX IS19: so (.) let me write if your (.)
XXX money this is money demand right?=
XXX S1: =mhm.=
XXX IS19: =if your money demand goes up
XXX then this LM curve will (.)
XXX ((writing))

12:00

XXX shift to the left.
XXX if (.) money demand goes down
XXX this LM curve will shift to the right.
XXX ((writing))
XXX and for the money supply
XXX it has (.) opposite effect.
XXX if the money supply goes up (.)
XXX LM curve will (.) shift to the right.
XXX and if money supply goes down (.)
XXX this LM curve will shift to the (.) left.
XXX S1: why is th- shift to the (.) left?
XXX IS19: when: money demand goes down it- (.)
XXX so then you need to refer to this (.)
XXX graph in (.) money
XXX to market equilibrium.
XXX so remember
XXX in this graph
XXX what they have this (.)
XXX curve is a money supply.=
XXX S1: =oh.=
XXX IS19: =and this is your (.)
XXX money demand.
XXX S1: ((nods))
XXX this curve is your money demand.
XXX S1: oh.
XXX IS19: so if your money demand goes up, (.)
XXX then this curve will shift to the right.
XXX S1: (and then) (.) is like,
XXX IS19: because your money demand increase
XXX so for given level (.)
XXX increased (.) this-
XXX uh this access is increase rate and this is your (.)
XXX money demand money supply
XXX is (.) real money.
XXX S1: °mm.
XXX IS19: so (.)
XXX if your money demand increase that means for given level
XXX of increase rate,
XXX your money demand will (.) be higher.
XXX S1: so (increase) rate will be (high)?
XXX IS19: no.
XXX I just want- want to see what is the effect

XXX of (.) uh
XXX increase in the money demand.
XXX so you need to (.
XXX to see this effect you can fixed (.)
XXX uh level for interest rate.
XXX because (.)
XXX if you have an increase in (.) money demand
XXX that means for given level
XXX of interest rate
XXX the real money demand will be higher.
XXX for each point.
XXX for this point,
XXX i- your money demand may be this value
XXX and for (.) another interest rate
XXX the money demand will be another value.
XXX so for every (.) point
XXX in the (.) interest rate,
XXX you will have a higher (.) money demand.
XXX S1: so when: (.) the: money demands increase and the (.2)
XXX interest rate (.) always increase?
XXX IS19: mm no.
XXX uh
XXX it will only cause a (.) shift (.) in this-
XXX in this curve.
XXX in the whole curve.
XXX S1: [so
XXX IS19: [now I am talking about
XXX this (.) money demand not uh
XXX intersection.
XXX S1: um: money demand?
XXX IS19: this (.) whole curve
XXX S1: so (.) uh which one is changing?
XXX [so
XXX IS19: [this uh
XXX this- this curve
XXX it will shift to the right.
XXX S1: °it will shift ((inaudible))°
XXX uh how this curve relates
XXX ((points))
XXX to this,
XXX [curve,
XXX IS19: [so you
XXX i- so if this (.)

15:00

XXX um uh,
XXX so if this curve shift to the right,
XXX then this (.)
XXX intersection
XXX will (.) go up,
XXX will uh- will shift from this one to this one.
XXX S1: ((inaudible))
XXX IS19: right.
XXX S1: uh
XXX IS19: because we- we are looking for the equilibrium
XXX in this market.
XXX so remember
XXX when we talk about equilibrium we (.)
XXX always (.) want to
XXX get this (.) intersection of the two curves.
XXX because LM curve is uh
XXX happens in the: uh
XXX in the equilibrium of the money to the market.
XXX S1: and then,
XXX IS19: so (.) um
XXX so for given
XXX so
XXX now let’s look at this curve so
XXX that means for given value of- um
XXX for give- uh (.)
XXX I mean for given value of income
XXX your interest rate will (.)
XXX ((writing))
XXX will go up.
XXX so.
XXX ((pause))
XXX so uh
XXX so for given value of Y
XXX you will have a higher interest rate
XXX that means this LM curve will (.1) go up and to the left.
XXX it will shift °in this way.
XXX S1: um,
XXX ((pause))
XXX um (.) this °curve°
XXX ((pause))
XXX IS19: so when you (.) uh
XXX conce- um when you consider the shift of this LM curve

XXX you c-
XXX what you need to think is to fix the:
XXX point.
XXX (miner-) either to fix this (.) interest rate
XXX or fix this income level.
XXX and see for given level of income,
XXX whether this interest rate will go up or,
XXX go down.
XXX you need to consider
XXX all the (.1) (all) this point.
XXX you- you- you- you can fix another one and then
XXX this interest rate will
XXX also go up.
XXX S1: °ok.
XXX so it's (.1) in the (.3) (shop wrong) to
XXX the income is fixed?
XXX IS19: no is
XXX it has no (.3)
XXX is different ah
XXX these are two different things.
XXX S1: [oh
XXX IS19: [so
XXX when we consider the shift of this curves,
XXX uh:
XXX ((pause))
XXX it's no relationship with the (.1)
XXX short run or long run.
XXX so the short run and the long run
XXX it's only (.) uh
XXX about the price level.
XXX S1: oh.
XXX IS19: but (.1) but here we only want to see the- (.2)
XXX uh the effect on this curve.
18:08
XXX S1: mhm.
XXX IS19: mm
XXX so you are confused (.) about this short run effect right?
XXX S1: yeah.
XXX IS19: so (.3)
XXX this short run means the price level is fixed.
XXX so remember for this LM curve

XXX it (.1)
XXX ((writing))
XXX means the (.) uh
XXX real money demand equals to the (.1)
XXX real money supply.
XXX S1: oh.=
XXX IS19: =so in the short run
XXX this (.1) p is fixed
XXX so we only need to consider (.2)
XXX um whether there is a (.)
XXX change in this (.) money (.) demand
XXX or there is a change in this money supply.
XXX so we do not (.) consider this-
XXX this P.
XXX S1: oh
XXX IS19: so (.) that's the meaning for (.) the short run.
XXX so you do now need to consider the (.1)
XXX the change in the price level.
XXX S1: ok.
XXX ((inaudible))
XXX ((points)) this is (.) the:
XXX short, long, effect,
XXX IS19: yes
XXX the long run (.) is
XXX uh in the long run you should consider the- (.)
XXX the AD curve and the AS curve.
XXX S1: [oh
XXX IS19: [so
XXX uh (.) in the long run,
XXX um (.1) the axis is still y but the
XXX Y axis will be price.
XXX so that's the different (.) with the
XXX short run.
XXX but now this is because for the short run,
XXX this is- (.3)
XXX this is for the short run.
XXX and you should use the IS LM model.
XXX so (.) this axis will be Y and this
XXX will be increase rate.
XXX but in the long run
XXX you should use this (.2) uh
XXX AD AS model.

XXX so this will be the (.) income
XXX and this is the price level.
XXX so (.) and in the long run the supply
XXX its AS curve will always (.) be fixed at uh
XXX income level.
XXX and
XXX the AD curve is always downwards.
XXX it's (.) decreasing.
XXX it's a decreasing function.
XXX ((reading))
XXX so (.) for- (.) for the chart,
XXX ((pause))
XXX so if there is a (.3) in the short run and in the long run
XXX so
XXX ((pause))
XXX uh you mean how it
XXX adjustment of the price,
XXX so if there is a-
XXX if the price goes up,
XXX so in the short run it will influence this (.) ah (.2)
XXX this um
XXX this money supply.
XXX S1: uh:,
XXX IS19: ((pausing to read))
XXX so because i- in the short run there is a i-
XXX ah increase in the income because
XXX the price level is fixed,
XXX but in the long run,
XXX um the income will fixed at this (.2)
21:00
XXX long run level.
XXX so (.1) this price will- (.) will- will rise.
XXX S1: and (.) is this (.) the: supply form
XXX is it demand °if it's (.) like,°
XXX IS19: no this (.) Y- (.) Y upper bar is the (.)
XXX income in the long run.
XXX this Y bar. Y upper bar means
XXX income in the long run.
XXX and it is a fixed- oh sorry.
XXX and it is a fixed number.
XXX but this (.) Y means the:
XXX income in the short run i- in equilibrium.
XXX S1: does this in the equilibrium=

XXX IS19: =yes=
XXX S1: =(have) (.) um
XXX IS19: because you see in the short run equilibrium
XXX this Y is the (.) value in equilibrium
XXX and this Y is the value in the long run.
XXX ((points))
XXX this Y bar.
XXX ((pause))
XXX and in the long run the price level will adjust (.2)
XXX will change so that this (.)
XXX um (lower P) will be the same.
XXX but in the short run this price level will be fixed.
XXX (.1)
XXX so that's why this Y will be different.
XXX S1: and Y (.1) u:m (.2)
XXX when the prices falls and the (.) (SRS)
XXX to move down,
XXX IS19: ((reading))
XXX (P) gradually force (yeah),
XXX °in the (.) short run,
XXX °if there is a (.1) decrease,
XXX um:↑
XXX ((shuffling paper))
XXX ((writing))
XXX so.
22:39
XXX ((no audible dialogue, IS19 occasionally whispers to
XXX himself))
22:56
XXX IS19: °this is your LM curve this is your (.) IS curve°
XXX and this is at equilibrium this is Y bar.
XXX so.
XXX in the short run this IS curve move to the-
XXX (.3) ((writing))
XXX move to the left, (.1)
XXX right. because and (.)
XXX also the price level is fixed,
XXX so the LM curve is (.) also (.1)
XXX it doesn't shift.
XXX and,
XXX in this AD curve,
XXX (.2) ((writing))
XXX so it's Y here

XXX °it's Y here.°
XXX °it's Y° (.) price level.
XXX so in the (.) short run this-
XXX (.2) ((writing))
XXX this AD curve will also shift to the-
XXX ((pause while writing))
XXX shift to the:- to the left.
XXX but uh
XXX then this IS- uh this LM curve will-
XXX I mean this price will adjust,
XXX um because (.1) I mean
XXX in the long run,
XXX you always need to fixed in this level.
24:01
XXX for the income.
XXX so (.) that means this AD curve (.) will (.)
XXX go back.
XXX (.2) ((writing))
XXX because in the short run it moves,
XXX to the left.
XXX and in the long run it will go back to this: level.
XXX (.2) ((writing))
XXX and since (.1) and the other two achieve that.
XXX you LM curve must (.) shift
XXX (.1) ((writing))
XXX to the right.
XXX that means (.) this (M)
XXX (.1) ((writing))
XXX this real money supply will-
XXX (.) ((writing))
XXX will increase.
XXX because you always want to fix this (.) um-
XXX fix this uh
XXX income equilibrium.
XXX so your LM curve shift to the right.
XXX and in order to do this, this,
XXX ((circles))
XXX real money- (.1) real money supply will goes up.
XXX and since your money supply is fixed,
XXX that's means your price level must go down.
XXX S1: °um°
XXX it doesn't change the LM and the (.1)
XXX buildup?

XXX ((inaudible))
XXX IS19: no.
XXX no you have to shift the-
XXX ((pointing)) this LM curve.
XXX because in the long run,
XXX your price level will (.) always change.
XXX it will a- adjust so that this ((pointing))
XXX equilibrium will be fixed in this level.
XXX S1: and the (.) SI will um
XXX (in the)
XXX ((inaudible))
XXX IS19: °um: (.2) short run.°
XXX °the short run yes.°
XXX yes because,
XXX (.3) ((pointing with pencil))
XXX in the short run,
XXX your AD curve move to this line and
XXX so this line will move the
XXX ((pause while writing))
XXX from here to here.
XXX ((pause while reading computer screen))
XXX so this is your (.1) (essay) (.) uh short run,
XXX aggregate supply line,
XXX and this is your (.1)
XXX uh short run aggregate supply line after the change
XXX after the shock.
XXX so it will move down to this level.
XXX S1: uh:
XXX so the (.) aggregate supplies depend on the
XXX aggregate demand
XXX IS19: in the short run.
XXX S1: in the short run
XXX IS19: yes.
XXX S1: um (.) how about the arrow?
XXX IS19: in the lo-
XXX in the long run it will be this curve.
XXX you see it's the long run aggregate supply and this
XXX SR is the short run.
XXX ((pointing at screen))
XXX so in the long run it will be this curve.
XXX and in the short run it will be (.) this one.
XXX S1: ok.
XXX IS19: this (.) uh

XXX S1: but will the long run (.) aggregate supply change,
XXX IS19: it will go back to (.)
27:00
XXX the previous level.
XXX uh: where is it,
XXX so
XXX (.1) ((writing))
XXX °in the short run
XXX ((pause)) ((writing))
27:11
XXX ((no dialogue while IS19 writes))
27:32
XXX IS19: uh
XXX sorry.
XXX this is (.1) uh this 82 is the (.2)
XXX is the long run.
XXX S1: um °eighty two the long run.°
XXX IS19: because um
XXX ((looking at computer screen)
XXX you're asking the (.) long run aggregate demand
XXX right?
XXX so (.) it is this curve.
XXX this 82.
XXX so it will not go back. (.2)
XXX it will not go back.
XXX it will (.1) go to this one so
XXX let me re- restate it.
XXX so after this shock (.1)
XXX um (.1) so this is the long run level,
XXX this is the
XXX (.2) ((writing))
XXX pre-previous AD curve.
XXX and
XXX (.1) ((writing))
XXX so this is the short run supply this is the long run (.)
XXX aggregate supply.
XXX this is the (.) short run,
XXX aggregate supply.
XXX so in this- in the short run,
XXX this curve will: go down.
XXX ((pause)) ((writing))
XXX to this level.
XXX S1: is the price in the short run,

XXX is fixed?
XXX IS19: u:m
XXX (.3)
XXX yes the price should be fixed but (.)
XXX °um°
XXX ((pause)) ((looking at computer screen))
XXX but they are- (.2)
XXX but in the short run they are not in equilibrium.
XXX so
XXX and this is for
XXX supply.
XXX and that is for the (.1) money demand.
XXX so °uh
XXX ((pause)) ((reading))
XXX the short run
XXX ((pause)) ((reading))
XXX P gradua- gradually
XXX ((pause)) ((reading))
XXX yes it should go down.
XXX gradually.
XXX not (.) uh (.) I mean (.)
XXX it will (cause) sometime.
30:00
XXX j- this uh (.) short,
XXX this short run aggregate supply will (.1)
XXX goes down gradually.
XXX not (.) immediately.
XXX this level.
XXX but (.2)
XXX in the long run
XXX it will (.1)
XXX go at this level and this AD curve will shift.
XXX (.1) to um to this new curve.
XXX to this new one.
XXX so all this will- (.) will be changing gradually
XXX not (.) immediately.
XXX S1: and- (.) and the: (.1)
XXX when the price one is change to price two so:,
XXX this,
XXX IS19: uh both- both this
XXX short run aggregate supply and this IS (.) (arrow one) curve
XXX will be shifting.

XXX because (.) if P goes down,
XXX this LM curve will shift to the (.) to the right
XXX which cause this AD curve shift to the left,
XXX and it will also cause the short run (.1)
XXX aggregate supply goes down.
XXX and finally in equilibrium.
XXX it will reach (.) this level.
XXX so that's why this is always the (.2)
XXX long run,
XXX S1: um,
XXX first the short run (.) SRS will (.1) uh shift
XXX [and the
XXX IS19: [gra- gradually goes down.
XXX S1: ((inaudible)) and the price will (.1) change,
XXX so the LM will change
XXX IS19: yes.
XXX [and (.) now
XXX S1: [so the aggregate demand will change
XXX IS19: yes.
XXX S1: but why the (.) (SRS) will change first?
XXX cause-
XXX IS19: uh this-
XXX S1: cause?
XXX IS19: yes because
XXX uh:
XXX because the Y
XXX because the income uh
XXX or the demand is
XXX less than the:
XXX long run level.
XXX so that means your-
XXX your demand is-
XXX is decreasing.
XXX your demand is less than the long run level.
XXX so (.) you will (.)
XXX decrease (the) price to match the supply and demand.
XXX S1: ((long pause))
XXX and (.) the-
XXX IS19: the price will go down because
XXX now here you are um (.1) the income is not in the
XXX equilibrium level in the long run equilibrium.
XXX it is less than the (.1) than this one.
XXX so that means your demand is not (.1)

XXX °uh
XXX (.3)
XXX S1: [so (.) it cause the price level to change?
XXX IS19: [i-
XXX yes.
XXX S1: so is cause the [(.1) (SRS) to change,
XXX IS19: [sh-short run
XXX yes.
XXX S1: ok.
XXX IS19: ((reading screen with S1))
XXX S1: for this construct-
XXX IS19: °suppose that (.) increase (.1) and (.1)
XXX °short run effects
XXX ((pause while reading))
XXX °(new graph) (.2)
XXX °increase um (.2)
XXX °so (.1) um (.1)
XXX if there increase in the (.) money supply that means
XXX so your LM curve will shift (.) to the right.
XXX S1: yes.
XXX IS19: and,
XXX so you knew, uh
XXX our income equilibrium will be (.)
XXX uh greater than this (.) long run
33:25