

Learning Objectives

Chapter 34

In this chapter you will

- Learn the theory of liquidity preference as a short-run theory of the interest rate
- Analyse how monetary policy affects interest rates and aggregate demand
- Analyse how fiscal policy affects interest rates and aggregate demand
- Discuss the debate over whether policy makers should try to stabilize the economy

You should be able to

- Show what an increase in the money supply does to the interest rate in the short run
- Illustrate what an increase in the money supply does to aggregate demand
- Explain crowding out
- Describe the lags in fiscal and monetary policy