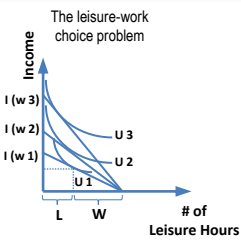
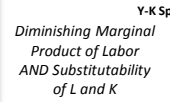
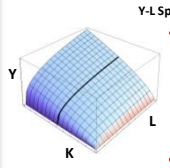


**First Building Blocks / Basic Definitions / Fundamental Ideas**

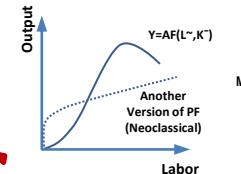
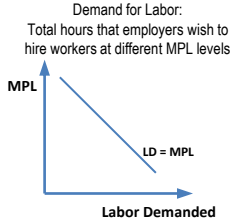
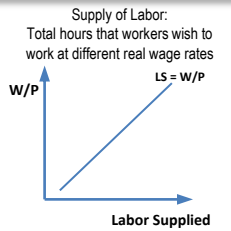
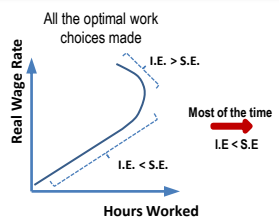
*The Income/Leisure Trade-off*

*Diminishing Marginal Product of Labor AND Substitutability of L and K*

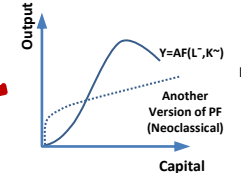
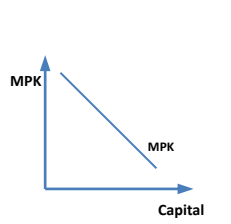
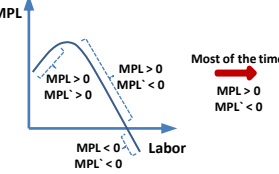
*Diminishing Marginal Product of Labor AND Substitutability of L and K*



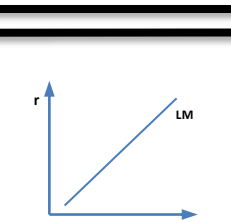
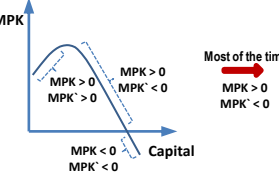
Work-Wage Space



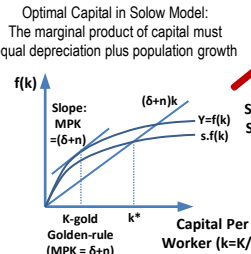
MPL-Input Space



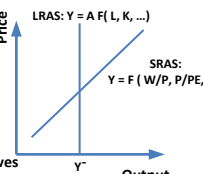
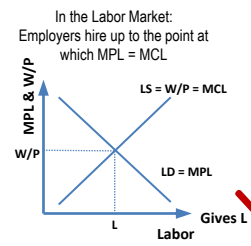
MPK-Input Space



Idea of per-capita production function & diminishing MPK is used in Solow Model



**Supply Side**

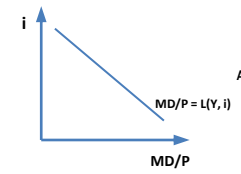


A Visual "Big Picture" for the General Equilibrium in the IS/LM/AS/AD Framework in Intermediate Macroeconomics

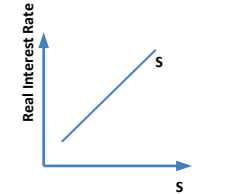
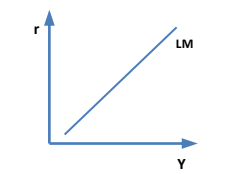
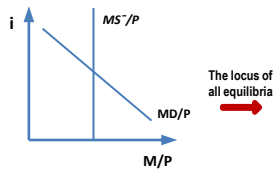
$MS^- = M0 + M1 + \dots$   
Assumed to be set by the CB  
 $MD = P \cdot L(Y, i)$   
b/c of three functions of money:  
1- Medium of exchange (Y)  
2- Unit of account (P)  
3- Store of value (i)

Saving - Real interest rate relationship is an empirical one.

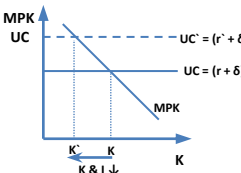
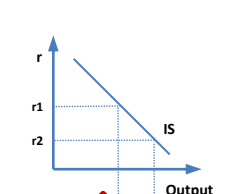
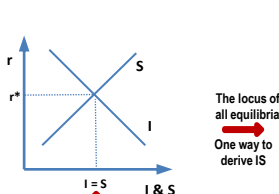
Interest rate is a part of users' cost of capital



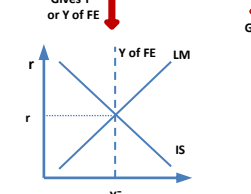
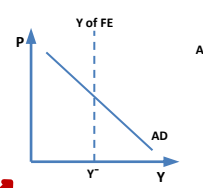
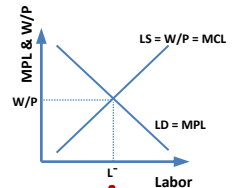
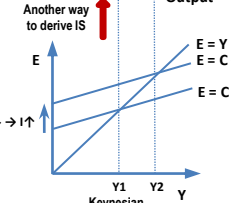
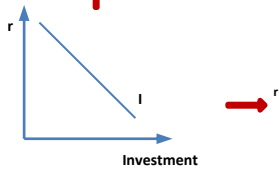
Adding MS^- to the diagram



The locus of all equilibria



Another way to derive IS

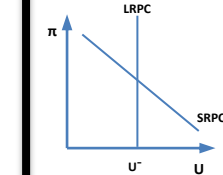
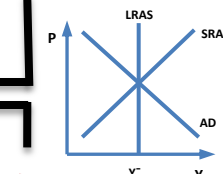


**Demand Side**

**LM Curve:**  
The combinations of interest rates and levels of real income for which the money market is in equilibrium  
**OR:** The set of equilibrium points between the liquidity preferences (or MD) function and the MS function

**IS Curve:**  
The equilibria where total private investment equals total saving  
**OR:** The locus of all equilibria where total spending equals an economy's total output

A Relationship With Phillips Curve



To see or download a high resolution version of this picture, please go to:  
<http://www.zeytoonnejad.com/macrobigpic.aspx>

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