Monetary policy 2
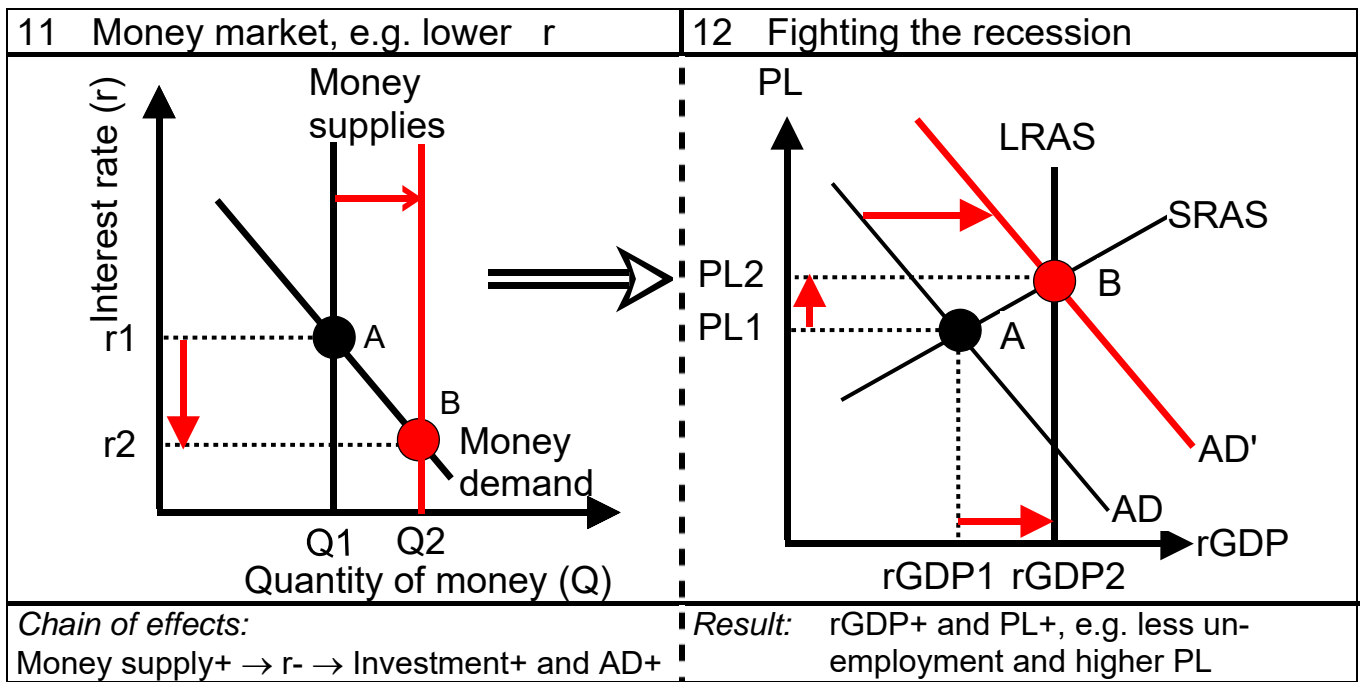
AS = Aggregate supply
PL = Price level
SRAS = Short-run AS

AD = Aggregate demand = C + I + G + (X-M)
rGDP = real Gross Domestic Product
LRAS = Long-run AS

1 *Expansionary* monetary policy in the case of a **recession**

11 Money market, e.g. lower r

12 Fighting the recession

Chain of effects:
Money supply+ → r- → Investment+ and AD+

Result: rGDP+ and PL+, e.g. less un-employment and higher PL

2 *Contractionary* monetary policy in the case of a **boom**

21 Money market, e.g. higher r

22 Fighting the boom

Chain of effects:
Money supply- → r+ → Investment- and AD-

Result: rGDP- and PL-, e.g. more unemployment and lower PL