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### RESEARCH ARTICLE

#### WHAT ARE THE CHANGES IN THE USE OF IS/LM MODEL EVER SINCE ITS INCEPTION?

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#### Manuscript Info

#### Abstract

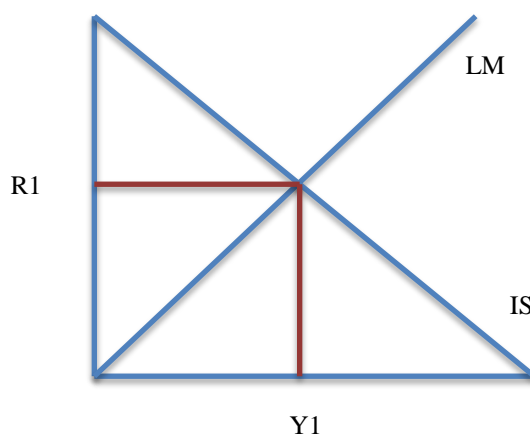
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#### Introduction:

The IS-LM model was initially used in the analysis of the microeconomics before it later got being used in the analysis of macroeconomics. From its inception, the IS model has been validated for usage in the analysis of the various macroeconomic phenomenon. In the macroeconomic analysis, the IS model has been used in the analysis of aggregate demand. In the determination of the aggregate demand, the point of intersection between the IS and the LM lines are said to be the point at which the aggregate demand is at equilibrium (Annaig, 2013). It is at this point that analysis is undertaken in the determination of the economic factors. One of the uses of the determined point of equilibrium is the policy development by the government on such as the fiscal policy and the monetary policy.

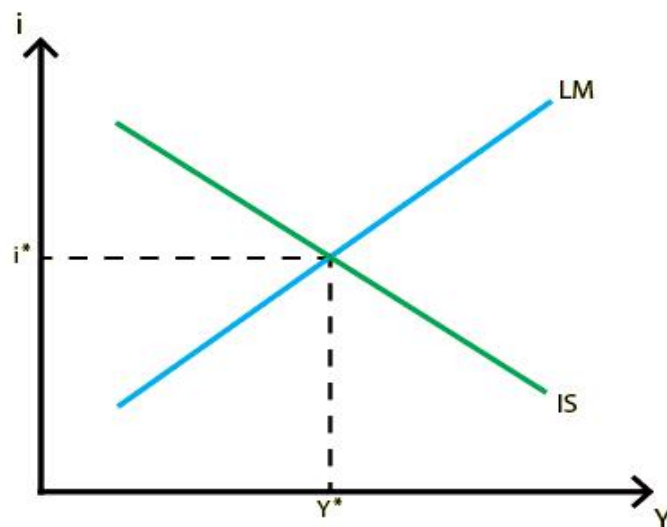


When the economy experiences shocks of different nature, changes in the IS-LM model are evidence and from these changes, the effects of such adjustment like the government spending can be determined.

The IS curve is used in the goods market in the determination of the level of output by the manufacturing firms. This is the basis on which the firms determine how much of a given commodity to produce for the market. The investment decisions are made by the firms as well as the individuals based on the behavioral aspects observed in the IS curve. On the other hand, the LM curve is used in the financial market, in which the LM curve plays a critical

role in the determination of the supply of money, inflationary measures and money demand. The upward-sloping LM curve is a good indicator of the positive correlation that exists between the interest rates and the output in the economy. The points along the LM curve basically do represent the points of equilibrium in the financial market. Also, the IS-LM curves are used in the policy mix analysis in the contemporary market segments. In this case, the IS-LM curves are used in the determination of the relationship between the interest rates in the financial sectors and the output levels in the market. The point of intersection between the two is the equilibrium point that states which amount of goods should be supplied in the market at what rate of interests in the financial market. The IS-LM models are mainly used in the determination of the relationship between the real economic output and the rate of interest for goods and services in the market.

In the following diagram, it is evident that the point of intersection between the IS and LM curves serves as the point of equilibrium for the determination of the various economic models upon which economic decisions are made. A shift in the IS curve is as results of the changes in the fiscal policies. In this case, a shift of the IS curve, represent an increase in the government spending in the economy, while a shift of the IS curve to the left, represent a decline in the government spending what we commonly refer to as contraction fiscal policies in the economy.



In the recent past, the IS-LM model has been adopted in the most preferred model for economic analysis, the new Keynesian model. This is based on the criticism placed against the IS-LM model. The IS curve is said to be more elastic as compared to the LM curve, hence bringing about some inconsistency in the usage of the both curves in the mix policy analysis and determination of various economic variables. It is on these bases that the monetarists are more skeptics about the new Keynesian models when it comes to the analysis of the macroeconomic variables. The new Keynesian model employs the IS-LM curves in the in-depth analysis of the macroeconomic policy evaluation and decision-making.

In conclusion, the IS-LM model has been used widely in the economy, in the policy making and the evaluation of the economic decisions in the economy. Most significantly are the usage of the IS-LM model in the financial and commodity market especially in the determination of the point of equilibrium for the interest rate and the level of output in the economy both in the long run and the short run economic periods. Various changes in the usage of the IS-LM curve have been observed in the recent past, leading to the development of what the monetarists refer to as the new Keynesian model, which is seemingly an in-depth application of the IS-LM models in the macroeconomic analysis.

#### Works Cited:-

Annaig, M.. *Introduction to macroeconomics; IS-LM models*. London: CBS publication, 2013.