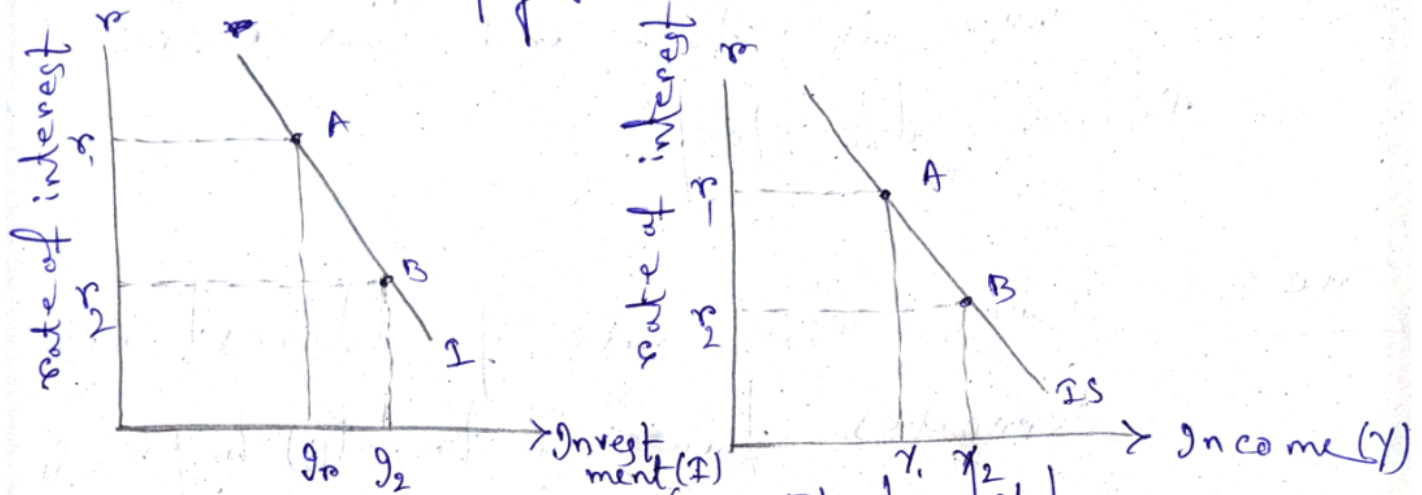
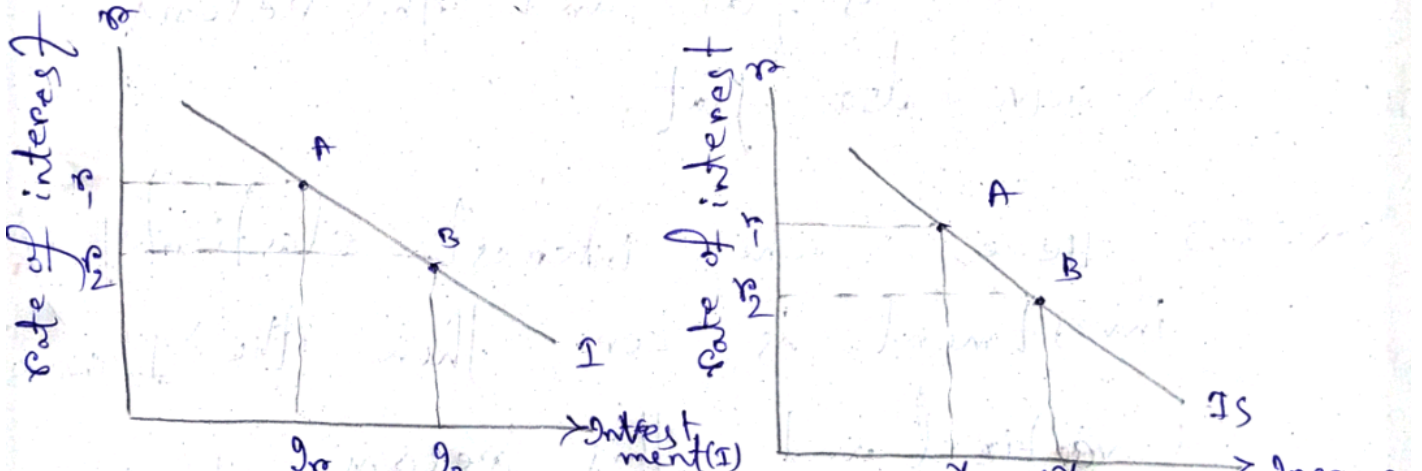


Slope the IS curve

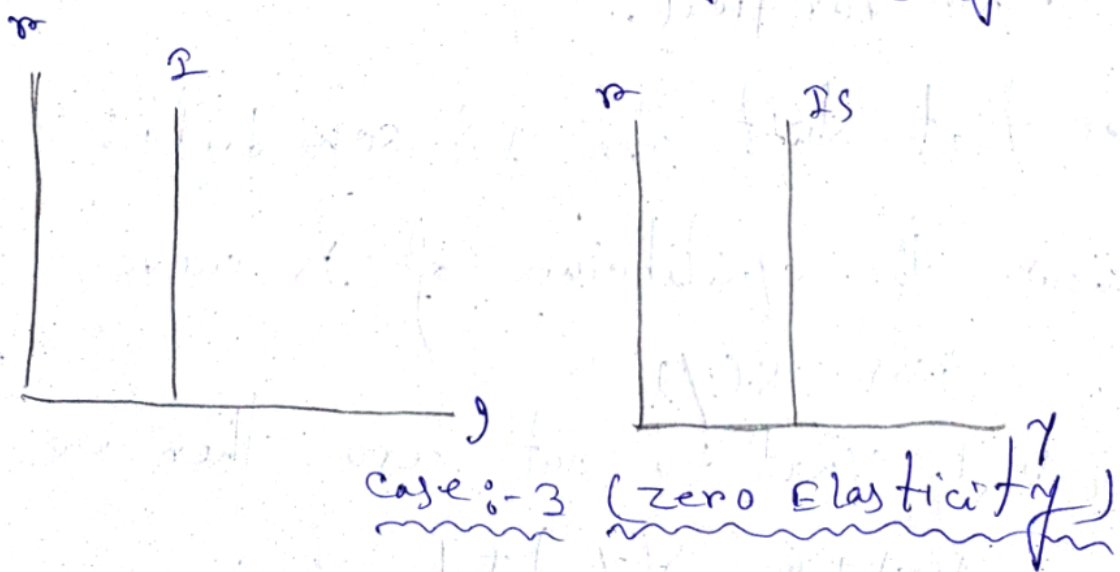
We get the relation between r & y above diagram. If we draw interest rate & income combination then we get, IS schedule which is shown in fig :-



Case :- 1 (Low Elasticity)



Case :- 2 (High Elasticity)



Case :- 3 (zero Elasticity)

In above diagram,

Case :- 1 Here, when rate of interest (r) increases then investment (I) decreases. So 'I' curve is steep and this reason's IS curve also steep.

Case :- 2 Here, when rate of interest (r) decreases then investment (I) high. So 'I' curve is flat and this reason's IS curve also flat.

Case :- 3 Here, when interest elasticity of investment is zero then the 'I' curve is vertical and this reason's IS curve also vertical.

Factors that shift the IS schedule :-

we know, the equilibrium of IS curve,

$$I(r) = S(r)$$

If G & T equal to not zero, then we can write,

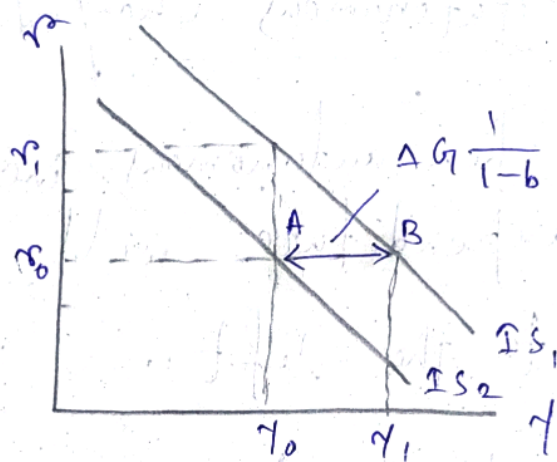
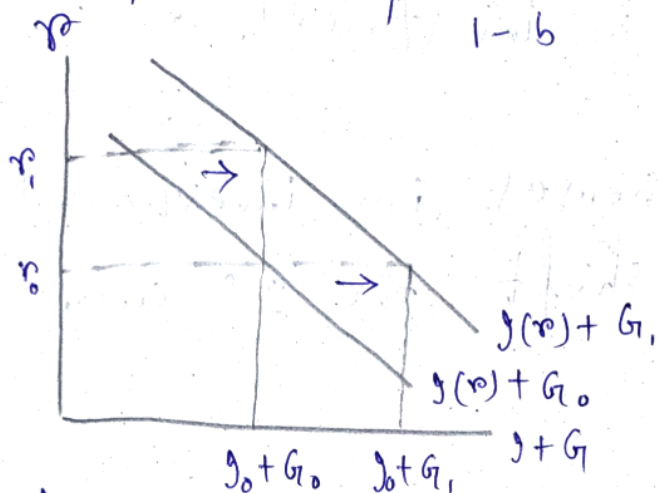
$$I(r) + G = S(r) + T$$

$$I(r) + G = S(r - T) + T$$

A) Change the Govt. expenditure :-

when the Govt. expenditure changed, then

we know,
$$\Delta y = \frac{1}{1-b} \Delta G$$



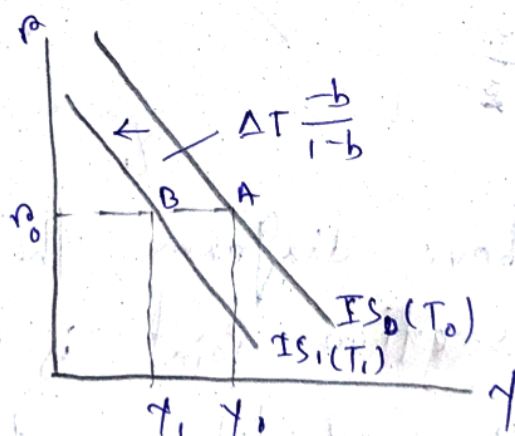
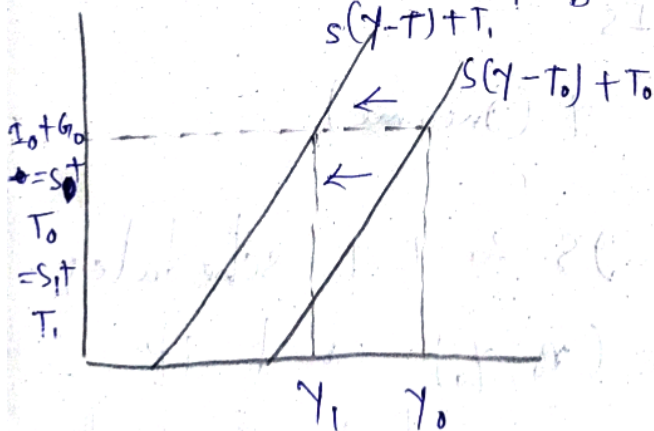
1) when G increases then y is also increases, and IS curve shift in right.

2) when G decreases then y is also decreases, and IS curve shift in left. so it is +ve relation.

B) Change the tax :-

when the tax changed, then we know,

$$\Delta y = \frac{-d}{1-b} \Delta T$$



3) when T increases then y decreases, and IS curve shift is left.

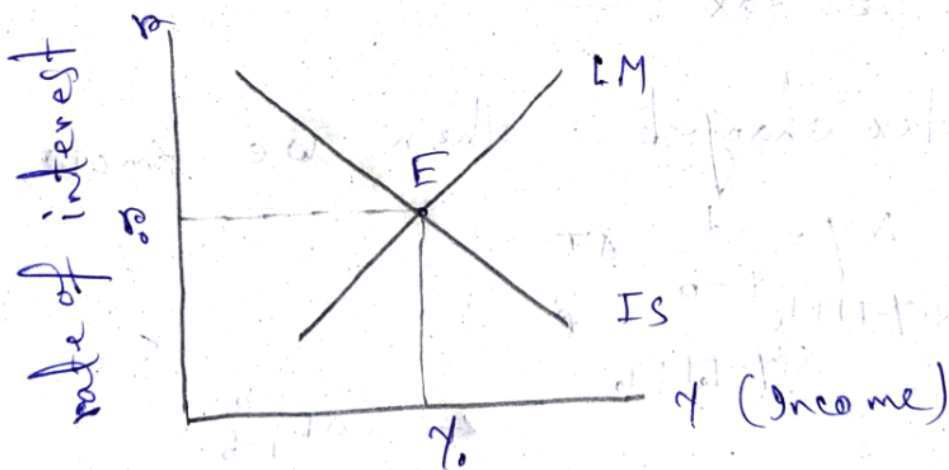
④ when T decreases then g increases, and
IS curve shift in right.

⑤ Autonomous changes in investment :-

⑤ when autonomous increases in investment expenditure will shift the IS curve to the left.

⑥ when autonomous decreases in investment expenditure will shift the IS curve to the right.

⑦ IS & LM schedule combination :-



In above diagram the IS & LM schedules intersection point is $E (r_0, Y_0)$ and it is the equilibrium for money & product market.