

WHY THE APPLICATION OF THE IS/IM MODEL CAN ONLY BE PARTIALLY VALID: AN ANALYSIS OF SWITZERLAND'S ECONOMIC POLICY MEASURES IN THE CORONA CRISIS

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ABSTRACT

This paper examines the partial end of the validity of the assumptions of the IS-LM model with regard to Switzerland's economic policy measures in the Corona crisis. The model assumes a closed economy, but Switzerland is a small, open economy. In the period under review, 2020, the slump in world trade triggered by the global Covid 19 pandemic did not leave Switzerland unscathed. Exports and imports shrank by seven and eleven percent respectively (cf. Federal Customs Administration 2020: n.d.). In some cases, trade came to such a standstill as a result of the protective measures imposed by the state that the country once again felt like a small, closed economy, even if only temporarily. In this context, the application of the IS/LM model is to be examined on the basis of the effects of the crisis. The general reading here, however, is not a theory-centred one-to-one translation of the model, but rather to apply the relationships discussed by the model to the current economic state of Switzerland. Both areas of economic policy, fiscal policy and monetary policy, can come into focus. The basic idea of the essay is based on an applicative literature review of the three articles "Prognose der SNB vom 17.12.2020 unter der Lupe Eine kritische Beurteilung", "Inflation als Auslaufmodell? Where does inflation remain?" and "Cognitive abandonment of the money glut - mentality towards the next wrong solution" (cf. "factfulness" 2021: o.p.). They all address the connection between money and goods markets, between government debt and central bank monetary policy, between inflation and economic growth, between efficiency and allocation losses in bureaucratic mechanisms in political systems in the sense of public choice theory. In keeping with the economic approach, one piece of the puzzle of the whole is now examined, in the knowledge that only several parts make a whole. The paper wants to give a basic thought whether macroeconomic models are outdated or not and not in the sense of Fukuyama. Because these models are adaptable according to their time and their insights can be carried along into new models and theories.

Keywords: IS/LM model, economic policy Switzerland, validity, Corona crisis.