A favorite explanation of Keynes for recessions

A. a drop in $Y_e \rightarrow +C_d$
B. a drop in $mP_k \rightarrow +I_d$

In either case, the IS curve shifts LEFT.

In either case, we have both $r$ and $Y$ falling as we move along the MP curve with this shift in the IS curve to the LEFT.
Bank failures reduce loans to consumers + businesses, and as a result both C and I are reduced.

This shifts IS to the left.

\[ \begin{align*}
\text{and as a result, } R & \text{ falls to } R_1, \text{ and } Y \text{ falls to } Y_1. \\
\text{If monetary policy is implemented so that } Y \text{ doesn't fall, MP shifts right so that } R \text{ falls to } R_2, \\
even more than the drop to } R_1 \text{ from the first case, and } Y \text{ stage at } Y_2. \\
\text{The central bank has to increase } M \text{ enough to push } R \text{ down to } R_2. \\
\end{align*} \]

(sorry, but in re-writing the question, I lost out the policy coordination part, but didn't change the question's title)}
Money Market equilibrium graph

\[ r^* = \text{target set by the Central Bank} \]

MD shifts right when banks pay more interest on money accounts. LM shifts up due to this.

However, the Fed is keeping \( r \) at \( r^* \) so they shift MS to the right by exactly the same amount as MD has shifted. Consequently, the LM curve shifts back to its original position.

In the end, MS and MD are the only ones that have shifted, both by the right by same amounts.