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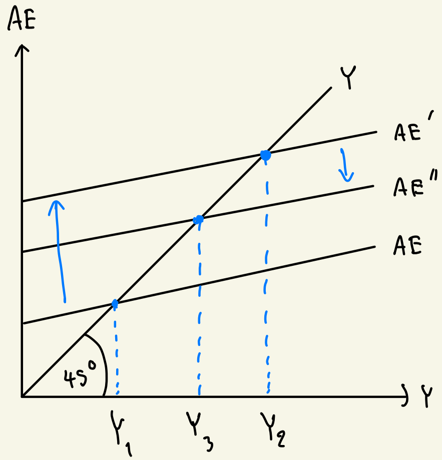
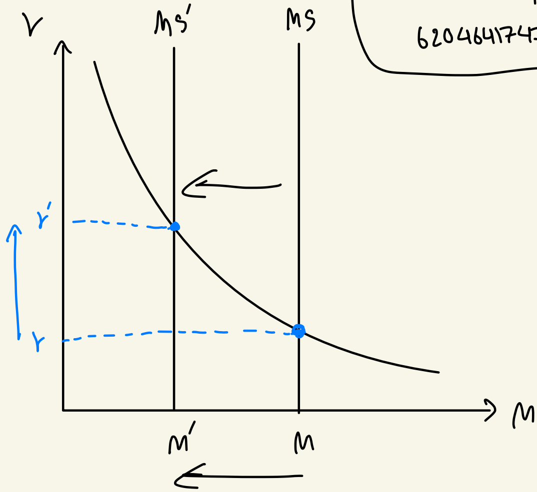
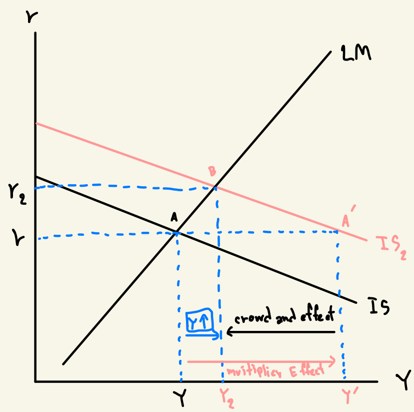
a.)



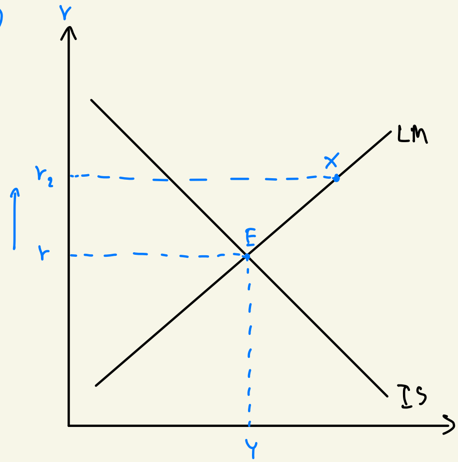




When G increase, IS will shift right but it will be effect excess IS > LM so it is crowding out effect. From A' we have to adjust into B at IS = LM and r increase from $r \rightarrow r_2$

b.) Another policy that can be used to avoid the crowding out effect is expansionary fiscal policy.

②

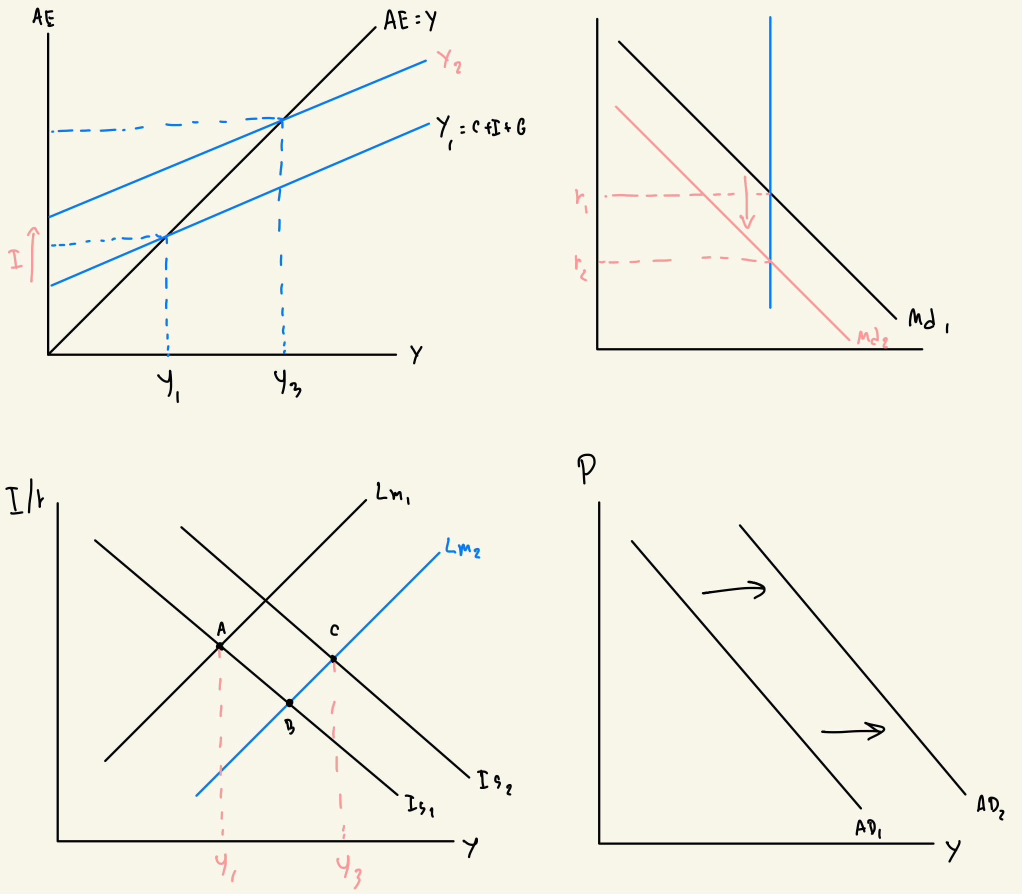


At x, r increase → ESM / EDB : people tend to hold bond instead of money because it will give r back in a big amount → a lot of people compete to buy it → P increase → r decrease at equilibrium.

③

a) L_0 falls became Life style of living because it doesn't depend on Y or i.

b.)



L_0 decrease causing md decrease from $md_1 \rightarrow md_2$ causing interest rate decrease to r_2. When r derease causing lm curve shift ↓ to lm_2. When r decrease it encovrage investor to invest more so I increase causing Kenesian cross Y_1 shift up to Y_2 so y increase from y_1 to y_3. So, the IS curve will shift right to IS_2 and equilibrium at point C as a result out will increase from y_1 to y_3 so the AD curve shift right.