

Final Exam Quiz

THOSE WHO COPY YOUR FRIENDS OR LET YOUR FRIENDS COPY YOU WILL BE AWARDED ZERO.

ปล ผมจดไว้แล้วนะครับว่าตอนมิตเทอมใครลอกของใคร ครั้งนี้ขอเตือนเลยที่ผมไม่ยอมแล้วนะครับ

ผมต้องลงโทษ ไม่งั้นต่อไปคงไม่มีใครอยากซื้อสตั๊ด

Submission Guide: You can upload up to 3 files on Moodle. If the whole file is too large, you should break it down and upload 3 files, each containing 1 question.

Question 1

Draw 3 diagrams (Keynesian Cross, Money Market, IS-LM) to **show and briefly explain** the followings:

- The crowding-out effect when the government increases its spending
- Another policy that can be used to avoid the crowding-out effect

Question 2

Draw the IS-LM diagram. **Pick ANY point on either the IS curve or the LM curve** (NOT the general equilibrium point). ย้ำว่าเลือกจุดไหนก็ได้ที่อยู่บนเส้น IS หรือ LM ที่ไม่ใช่จุดตัดตรงกลางของสองกราฟ

Use the diagram that you draw to briefly explain how the two markets at **your current point** will adjust towards the general equilibrium.

Question 3

Assume that the liquidity preference function (real money demand) is given by the $L(Y, i) = L_0 + L_Y Y - L_i i$.

Note that L_0 is **autonomous money demand**, while other terms are the same as in the lecture slides.

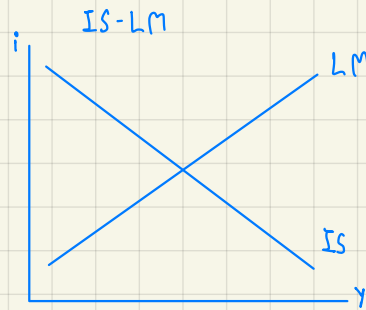
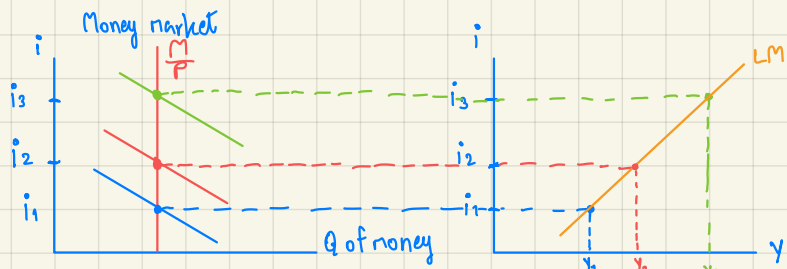
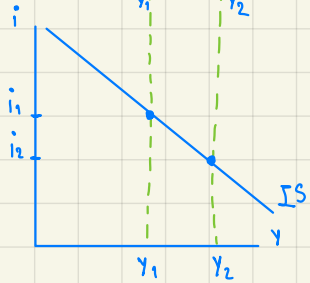
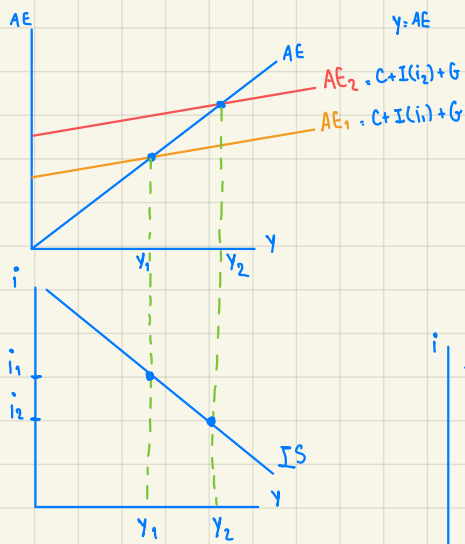
Now suppose that L_0 falls.

- Give ONE reason why this may happen.
- Show and briefly explain the effect of the fall in L_0 on the 4 diagrams (Keynesian Cross, Money Market, IS-LM, AD).

Question 1

Draw 3 diagrams (Keynesian Cross, Money Market, IS-LM) to **show and briefly explain** the followings:

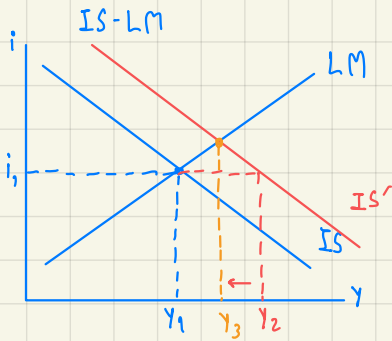
- The crowding-out effect when the government increases its spending
- Another policy that can be used to avoid the crowding-out effect



$LM = Md: Ms$

$i \uparrow \rightarrow Y \uparrow$

a) The crowding-out effect when the government increase spending



Goods Mkt : $G \uparrow \rightarrow AE \rightarrow Y_2 \uparrow$

Money mkt : $Y_2 \uparrow \rightarrow Md \uparrow \rightarrow i \uparrow$

Goods mkt : $i \uparrow \rightarrow I \downarrow \rightarrow Y_3 \downarrow \rightarrow$ crowding-out effect

when government spend more Investor are discourage to invest because of high interest rate

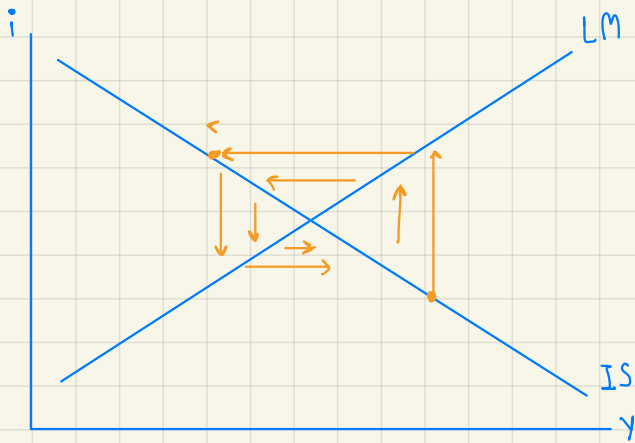
b) another policy that can be used to avoid the crowding-out effect

- Monetary policy because $M \uparrow \rightarrow i \downarrow \rightarrow I \uparrow \rightarrow Y \uparrow$

Question 2

Draw the IS-LM diagram. Pick ANY point on either the IS curve or the LM curve (NOT the general equilibrium point). ย้ำว่าเลือกจุดไหนก็ได้ที่อยู่บนเส้น IS หรือ LM ที่ไม่ใช่จุดตัดตรงกลางของสองกราฟ

Use the diagram that you draw to briefly explain how the two markets at your current point will adjust towards the general equilibrium.



to adjust to general equilibrium we need to adjust both market

- ① Money market : $Y \uparrow \rightarrow M_d \uparrow \rightarrow i \uparrow$
at my orange point GM is equilibrium but MM is not ($M_d > M_s$), so banks increase i
- ② Goods market : $i \uparrow \rightarrow I \downarrow \rightarrow Y \downarrow$
now MM is equilibrium but GM is not, investor are discourage to produce, so the output decrease cause of $i \uparrow$
- ③ Money market : $Y \downarrow \rightarrow M_d \downarrow \rightarrow i \downarrow$
when output decrease \rightarrow the demand of holding money fall, it make price of money fall too
- ④ Goods market : $i \downarrow \rightarrow I \uparrow \rightarrow Y \uparrow$
after decrease investor courage to invest that make investment increase that make output \uparrow

then continue this loop toward to 2 market in equilibrium in some time.

Question 3

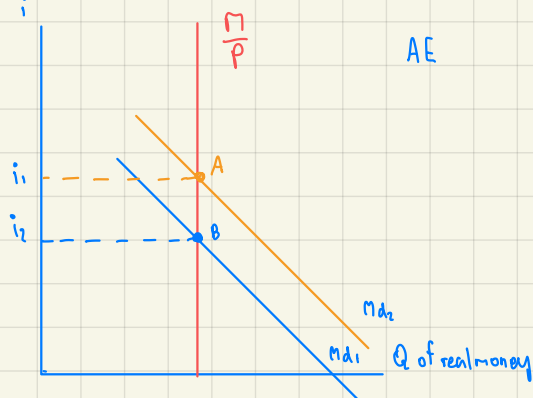
Assume that the liquidity preference function (real money demand) is given by the $L(Y, i) = L_0 + L_Y Y - L_i i$.

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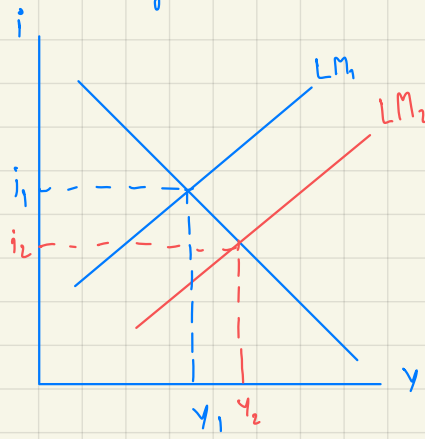
Now suppose that L_0 falls.

- Give ONE reason why this may happen.
- Show and briefly explain the effect of the fall in L_0 on the 4 diagrams (Keynesian Cross, Money Market, IS-LM, AD).

a). A lost of confidence or discouragement of investor to invest in Money market.



L_0 fall make $i \downarrow$ from i_1 to i_2



fall in L_0 LM curve shifts right, with lower interest rate from Y_1 to Y_2

