ASSIGNMENT 1: DUE FRIDAY 31ST (BEFORE 23.30)
ANALYZE SHOCKS WITH THE IS-LM MODEL

Use the *IS-LM* model to analyze the effects of

1. a boom in the stock market that makes consumers wealthier. (odd-numbered group)
2. after a wave of credit card fraud, consumers using cash more frequently in transactions. (even-numbered group)

For each shock,

a. use the *IS-LM* diagram to show the effects of the shock on ***Y*** and ***r*****.** Explain the mechanism.

b. determine what happens to ***C***, ***I***, and the unemployment rate.

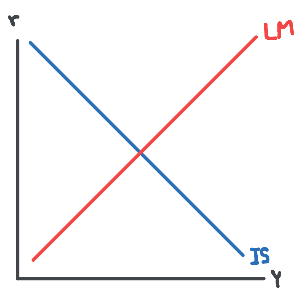
1. a boom in the stock market that makes consumers wealthier. (odd-numbered group)

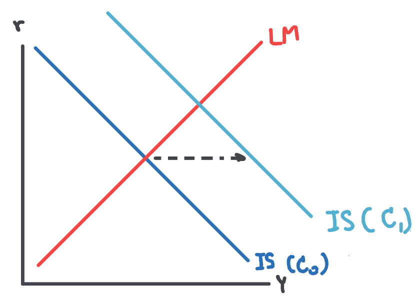
For each shock,

a. use the *IS-LM* diagram to show the effects of the shock on ***Y*** and ***r***. Explain the mechanism.

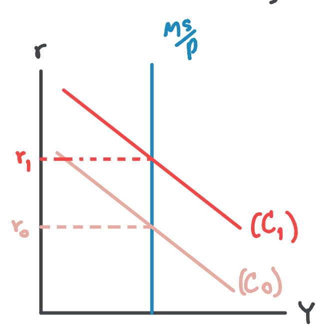
b. determine what happens to ***C***, ***I***, and the unemployment rate.

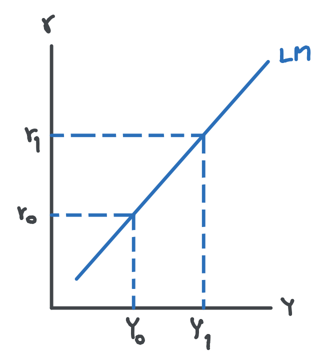
a).



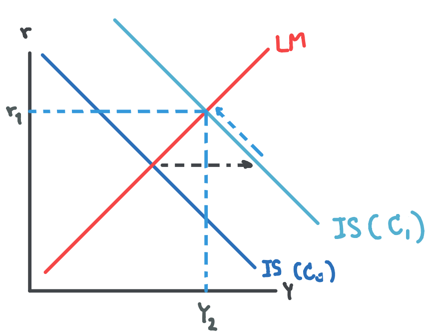


If consumer is wealthier cause more ability to consume so c increase , AE increase then Y increase make IS shift upward.





since Y change make r also increase but LM move along the curve then when r increase make investment decrease also as Y.



In conclusion, for a boom in stock make consumer wealthier which make Y and r increase causing crowding out effect.