

Final Exam Quiz

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

ปล ผมจดไว้แล้วนะครับว่าตอนมิตเทอมใครลอกของใคร ครั้งนี้ขอเตือนเลยว่าผมไม่ยอมแล้วนะครับ

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

A. IS equation : $Y = C + I + G$

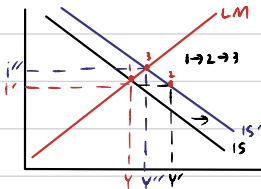
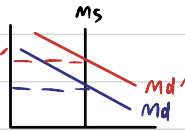
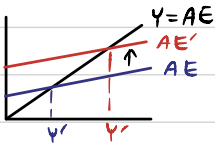
LM equation : $\frac{M}{P} = L(i, Y)$

Expansionary fiscal policy $\rightarrow G \uparrow$ (IS shift)

GM : $G \uparrow \rightarrow AE \uparrow \rightarrow Y \uparrow$

MM : $Y \uparrow \rightarrow Md \uparrow \rightarrow i \uparrow$

GM : $i \uparrow \rightarrow I \downarrow \rightarrow AE \downarrow \rightarrow Y \downarrow$



Crowding-out effect is a problem of fiscal policy when government increases its spending or reduce tax.

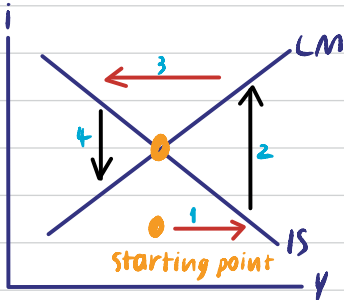
From the graph, firstly the government increases its spending ($G \uparrow$), it causes AE rises which output will rise as well. Hence, this represented by shifting rightward of IS curve ($IS \rightarrow IS'$) at Y' . Then in money market, as output increase, it leads to shift money demand to the right, so it also pushed up the interest level at i' . Increasing in interest rate, it will discourage the investor from investing, hence the AE falls which output will drop from Y' to Y'' . This represent the crowding-out effect.

B. The contractionary fiscal policy that decrease the government borrowing, shifting supply curve for bonds to the left. Interest rate will drop, inducing a greater quantity of investment. Or this can call "crowding in"

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.



$$1) GM : Y < AE \rightarrow Y \uparrow$$

$$2) MM : Y \uparrow \rightarrow Md \uparrow \rightarrow i \uparrow$$

$$3) GM : i \uparrow \rightarrow I \downarrow \rightarrow Y \downarrow$$

$$4) MM : Y \downarrow \rightarrow Md \downarrow \rightarrow i \downarrow$$

From IS curve is focus on good & service market which is each point is equilibrium in good market and show the combination of i and y : $y = AE$ for the negative relationship between i and y ; higher i reduces y because it discourage investment. For example the point 1,2,3,4,5 all sell \$2 but if number 2 change their mind the rest need to change the price follow number 2. We need to change in good & service market and the curve will be effective. In the good market the interest rate need to be less than AE and both will make income increase. and in the money market the income increase, money demand will increase, and the interest rate will increase also. After that in the good market the interest rate should be increase and income decrease. The last part in money market income is decrease the money demand will decrease and also interest rate. so it will adjust towards the 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.

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a. L_0 is mean like C (constant) when the L_0 is falls mean the y-axis decrease.
the L_0 falls it mean money demand decrease. the LM shifts to the right

b.

