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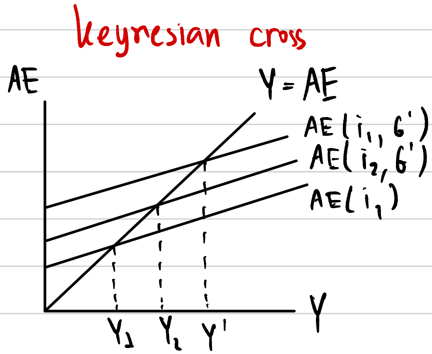
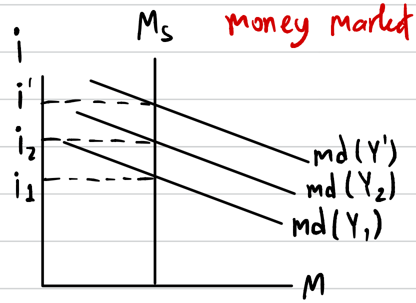
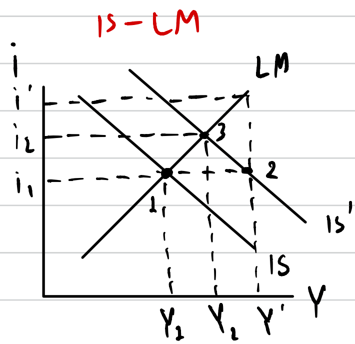
Jakkapat

Q 1.

a.

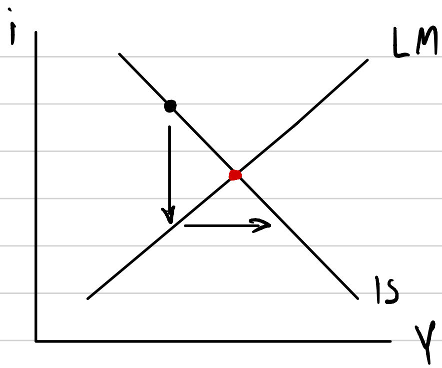






b. Reduce government borrowing the interest rates drop, inducing a greater quantity of investment.

Q2.



When the point is on IS, the G&S market is in equilibrium. There will be adjustment in money market, producers will produce less, and money demand also decrease after that interest rate decrease. The point will go to LM, the money market is in equilibrium. There will be adjustment in G&S market. After interest rate decrease, producers will produce more, and Y will increase back to the general equilibrium.

Q3.

a.

b.