

## Quiz EE212

Time allowed: 1 hour from 19.00 – 20.00

Submission time: 15 minutes

Latest submission by 20.15

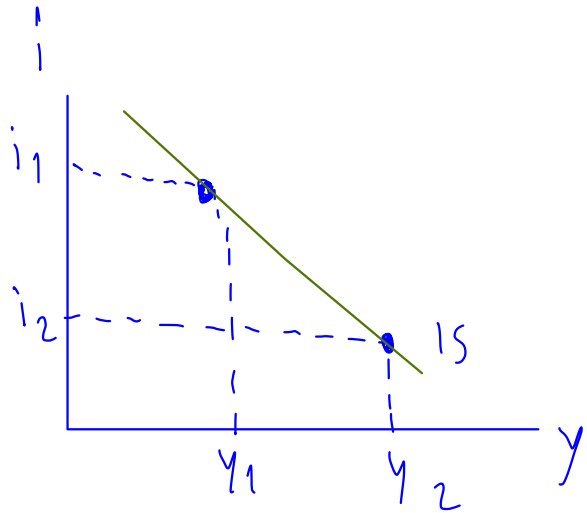
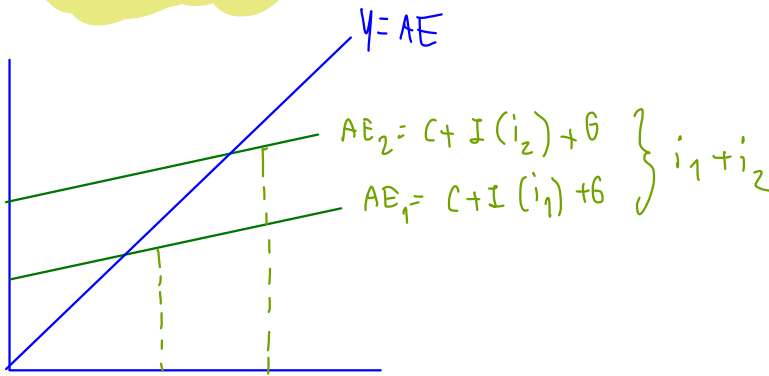
**Do not write too much. Brief explanation is sufficient.**

1. Use TWO relevant diagrams to explain how the IS curve is derived from the goods market.
2. Use TWO relevant diagrams to explain how the LM curve is derived from the money market.
3. Use relevant diagrams to explain how the AD curve is derived from the IS-LM model.
4. Use relevant diagrams to explain how the SRAS curve is derived from the labor demand and the production function.

1. This IS curve displays negative relationship between  $Y$  and  $i$  in the goods market. According to investment is depend on interest rate, when interest rate increase, the investment will fall, and leads to decrease in AE and output.

goods market

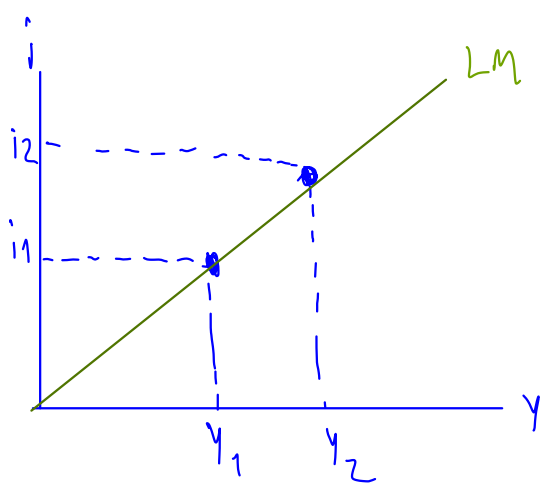
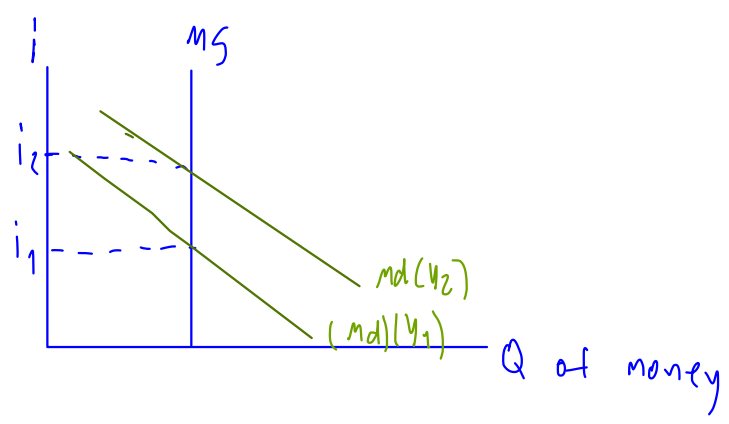
$i \uparrow \rightarrow I \downarrow \rightarrow AE \downarrow \rightarrow Y \downarrow$



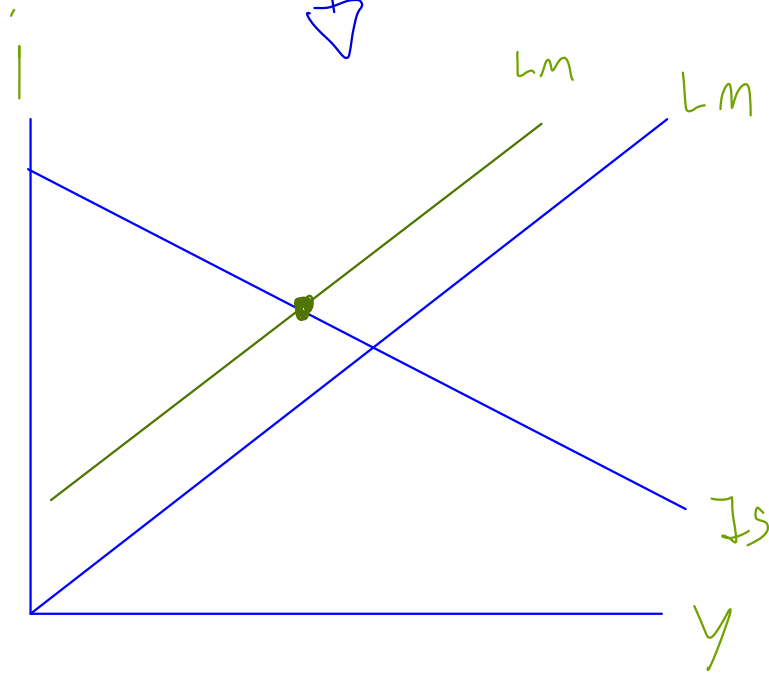
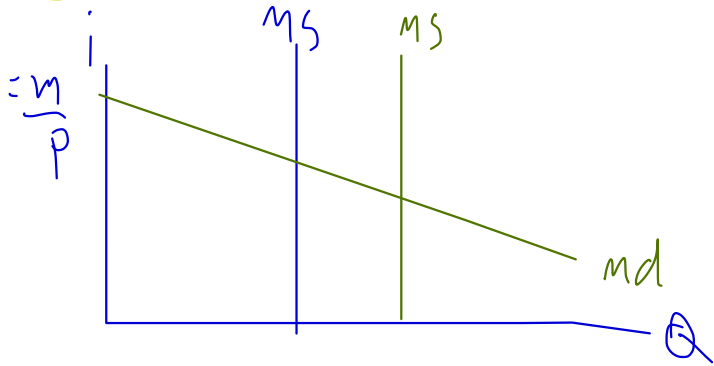
2. The LM curve displays the positive relationship between  $i$  and  $Y$  in money market

$Y \uparrow \rightarrow M_d \uparrow$   
 $i \uparrow \rightarrow M_d \downarrow$

}  $M_d = M_s$

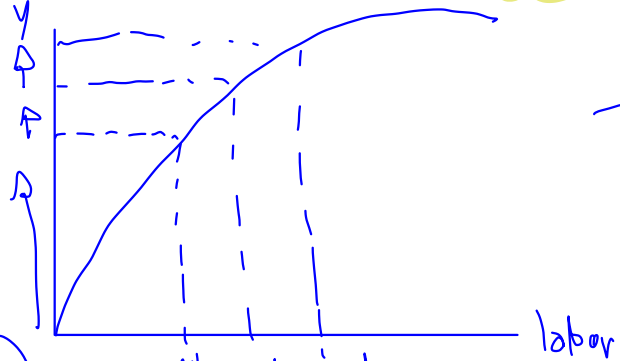


3.



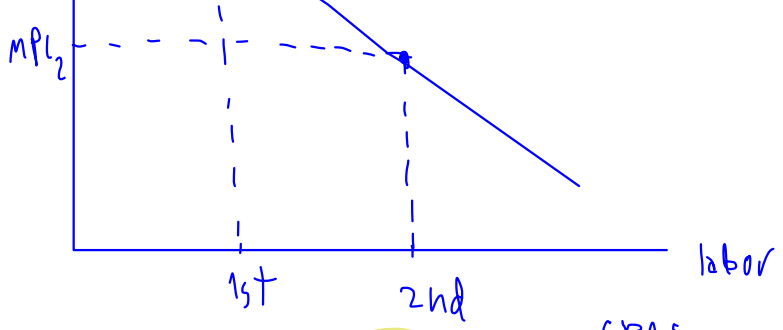
$\therefore$  LM shifts to left when  $P \uparrow$

④ production function

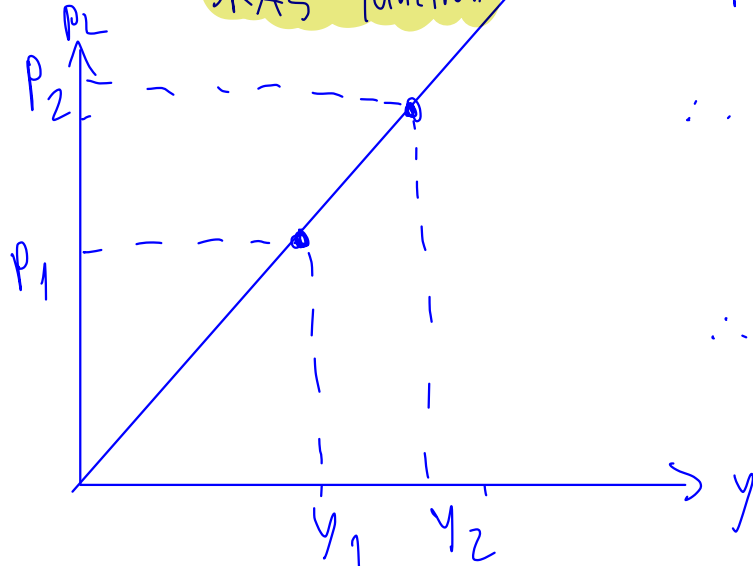


→ flatter = less MPL

⑤  $\frac{w}{p}$  Labor demand



SRAS function



$P \uparrow \rightarrow \frac{\bar{w}}{p} \downarrow$   
 $\therefore$  hire more L  
 $\downarrow$   
 produce more ( $y \uparrow$ )  
 $\therefore$   $P \uparrow$  real wage  $\downarrow$   
 $\rightarrow L \uparrow \rightarrow y \uparrow$