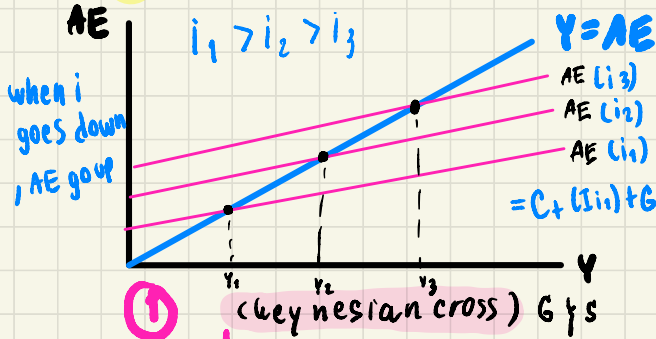


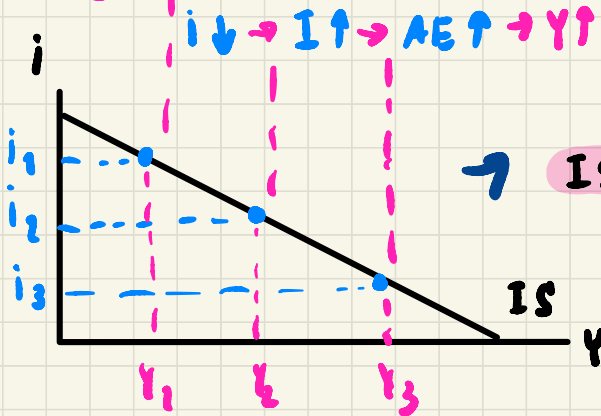
Time allowed: 1 hour from 19.00 – 20.00 Submission time: 15 minutes

Latest submission by 20.15

1. Use TWO relevant diagrams to explain how the IS curve is derived from the goods market.



→ Goods & services market



→ IS-curve

IS-curve →

↳ negative relationship between int. rate & output

↑ int. rate discourages investment
 $i \uparrow \rightarrow I \downarrow \rightarrow AE \downarrow \rightarrow Y \downarrow$
 $AE = C + I + G = C(Y - T) + I(i) + G$

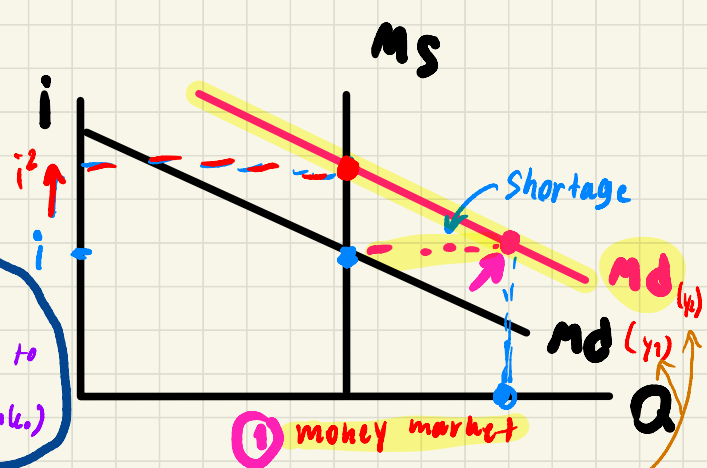
$i \downarrow \rightarrow I \uparrow \rightarrow AE \uparrow \rightarrow Y \uparrow$

2. Use TWO relevant diagrams to explain how the LM curve is derived from the money market.

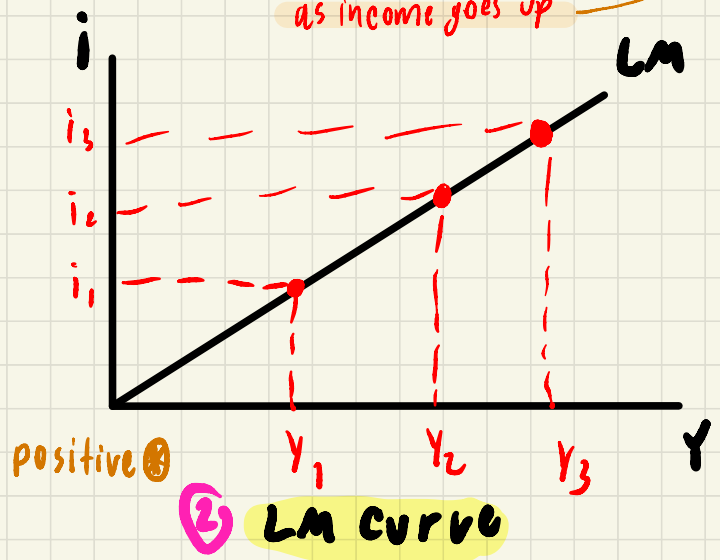
LM-Curve $\rightarrow Y \uparrow \rightarrow M_d \uparrow \rightarrow i \uparrow$
 $\hookrightarrow M_d > M_s$

\rightarrow AS income \uparrow , ppl demand more money to buy goods & services.

Therefore, as $M_d > M_s \rightarrow$ the interest rate increase in order to decrease M_d to $=$ to $M_s \rightarrow$ which is in equilibrium (m.m.e.)

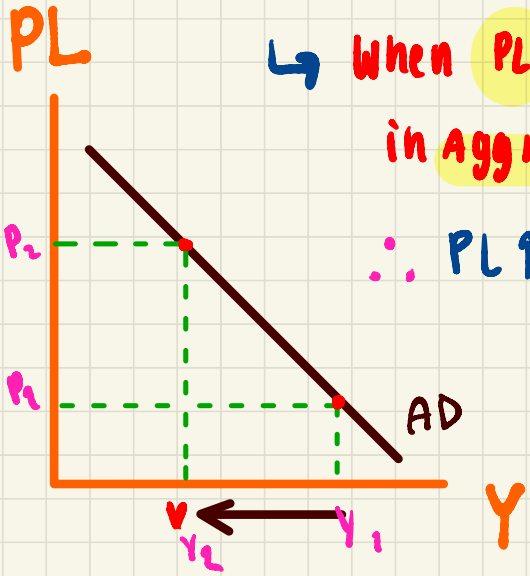
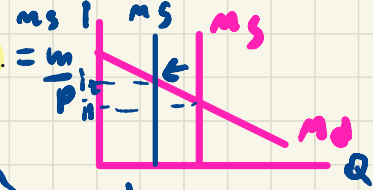


as income goes up



positive ③

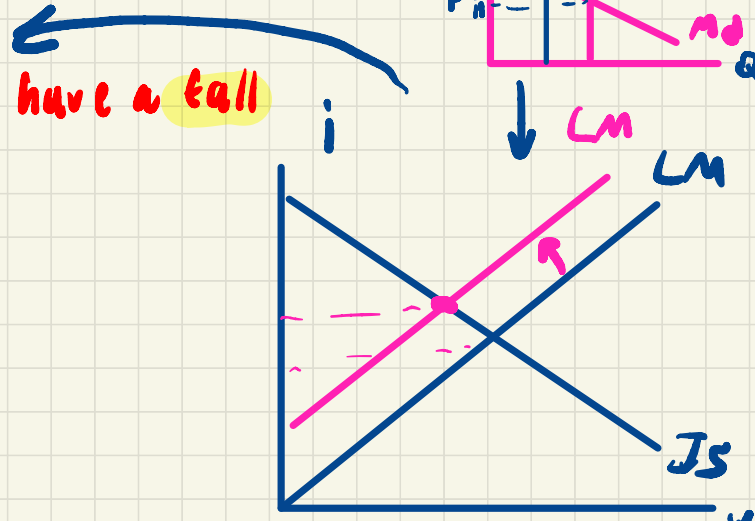
3. Use relevant diagrams to explain how the AD curve is derived from the IS-LM model.



↳ When PL goes up, you'll have a fall in Aggregate demand.

$$\therefore PL \uparrow = Y \downarrow AD \downarrow$$

We use (IS-LM curve) to derive AD, though IS curve is not about price level at all.

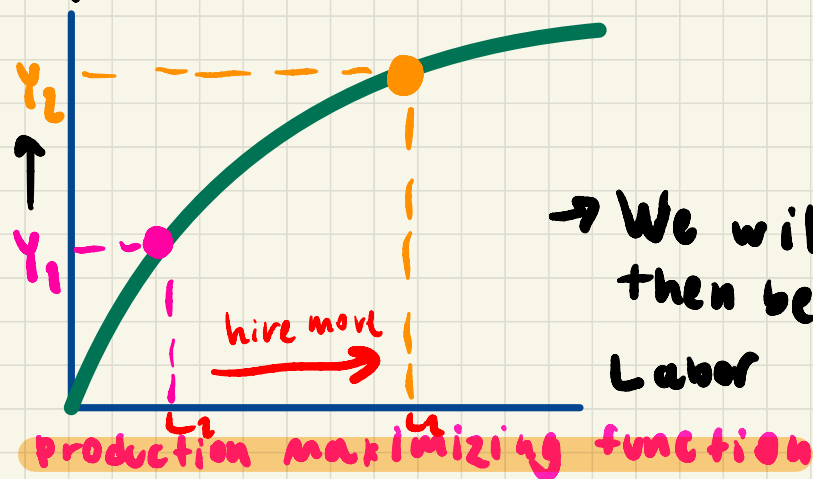
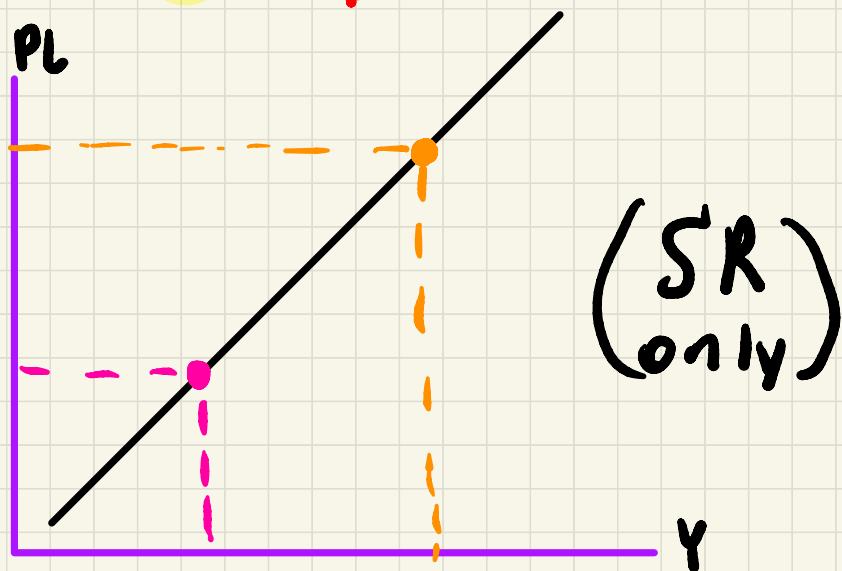
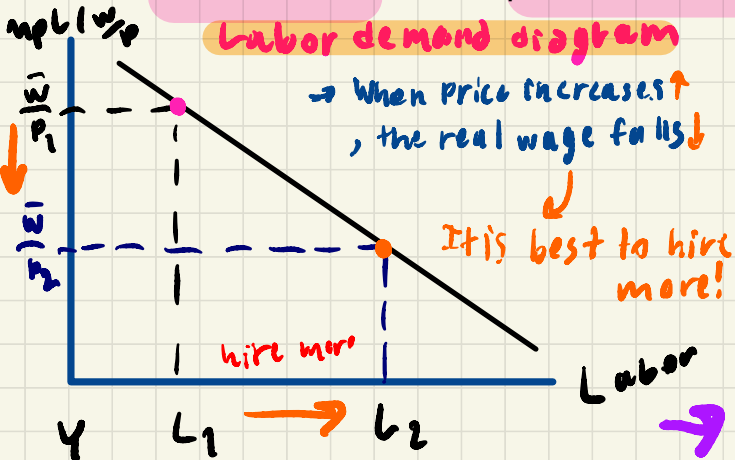


→ LM will shift to the left when P goes up

→ nominal wage = sticky in SR

4. Use relevant diagrams to explain how the SRAS curve is derived from the labor demand and the production function.

$\therefore P \uparrow \rightarrow \frac{W}{P} \downarrow \gg \text{Labor} \uparrow \rightarrow L \uparrow \rightarrow Y \uparrow$
demand



→ We will then be able to increase output/ produce more.