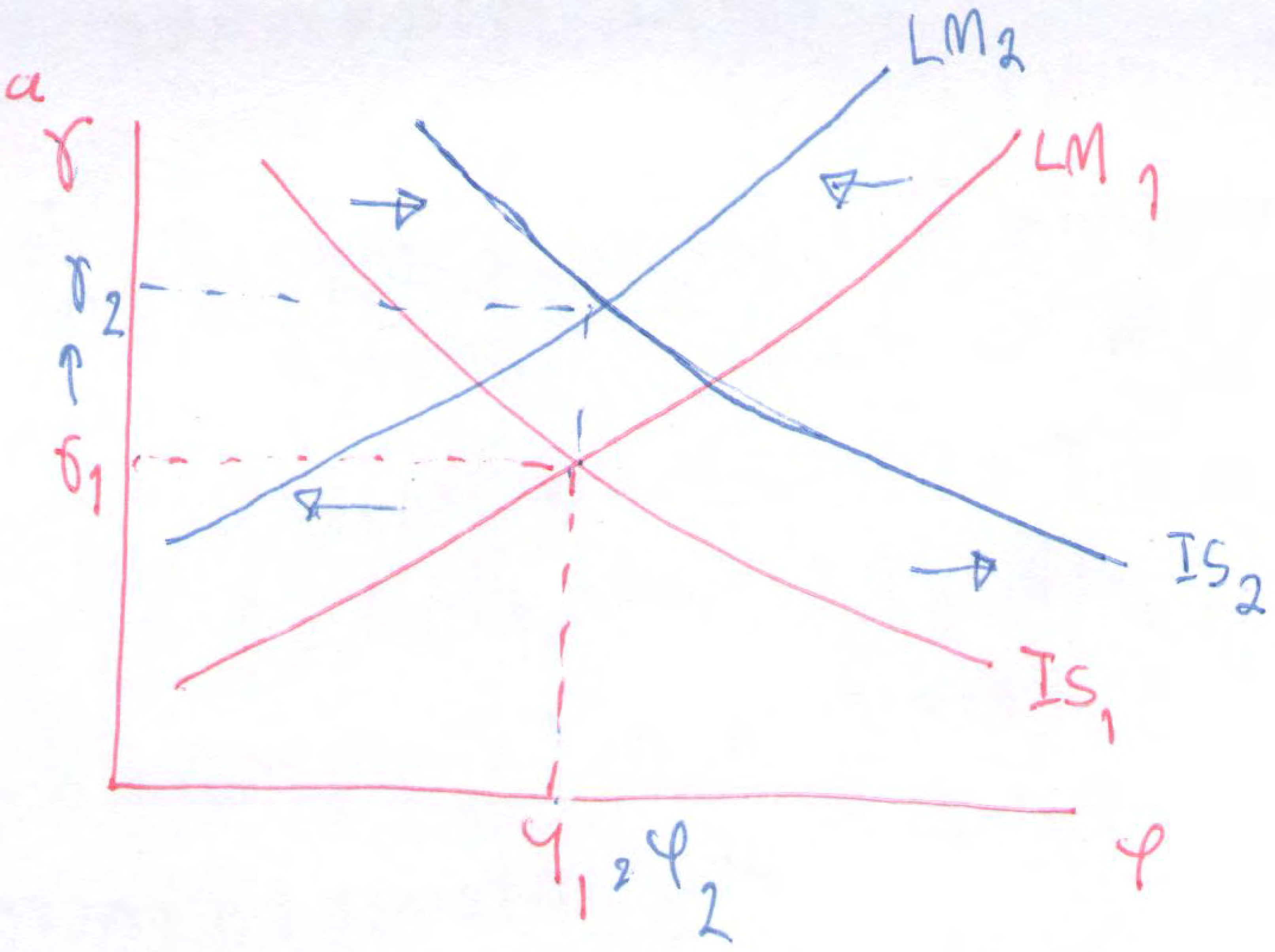
Q5a



Contract. Monet. Policy
&
Expansion. fisc. Policy

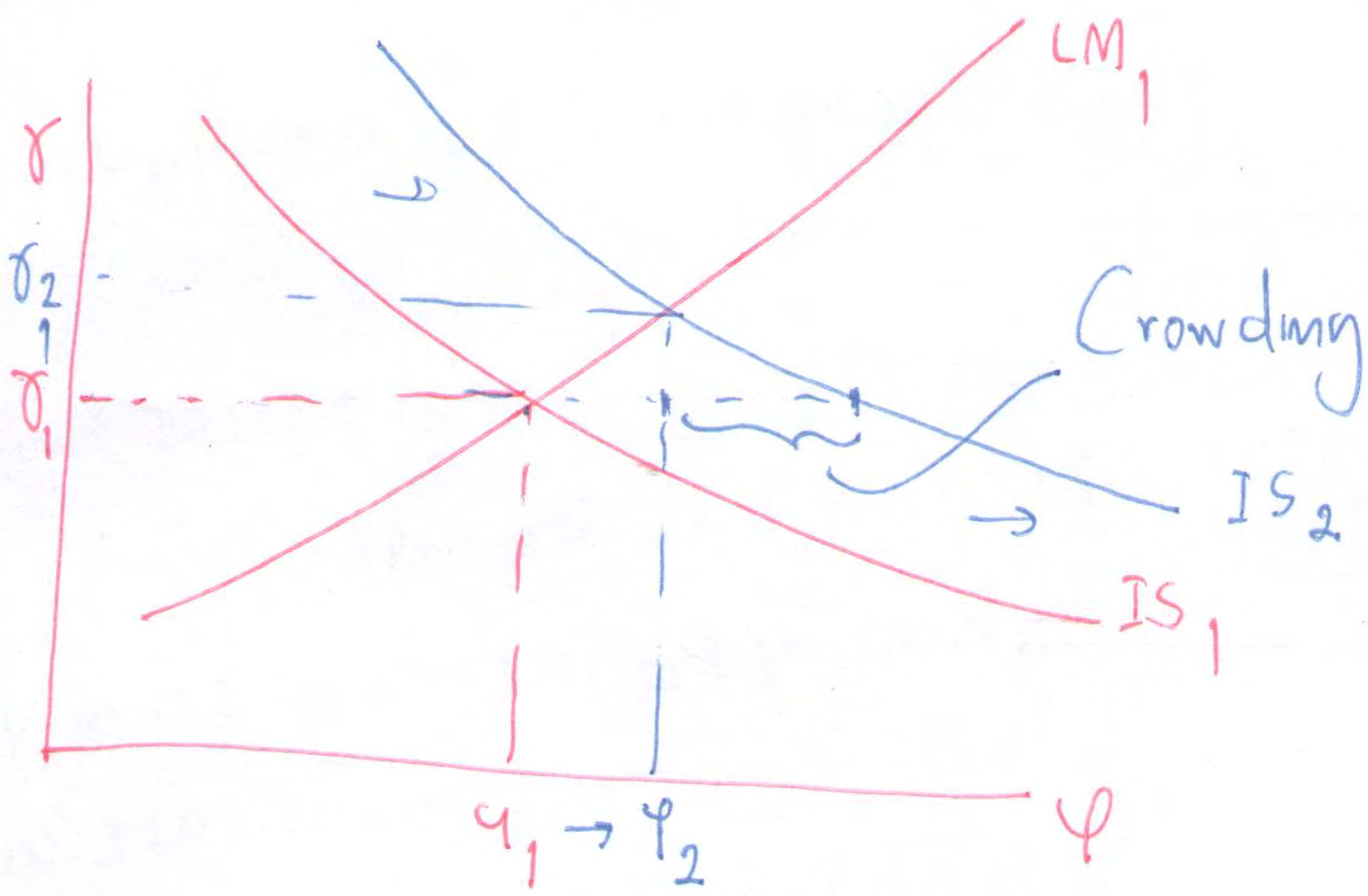
→ LM shift left due to Ms↓

→ IS shift right due to T↓

→ r increases but change in Y is ambiguous

(See more on what happens through graphs explain money & goods mkts)

5b

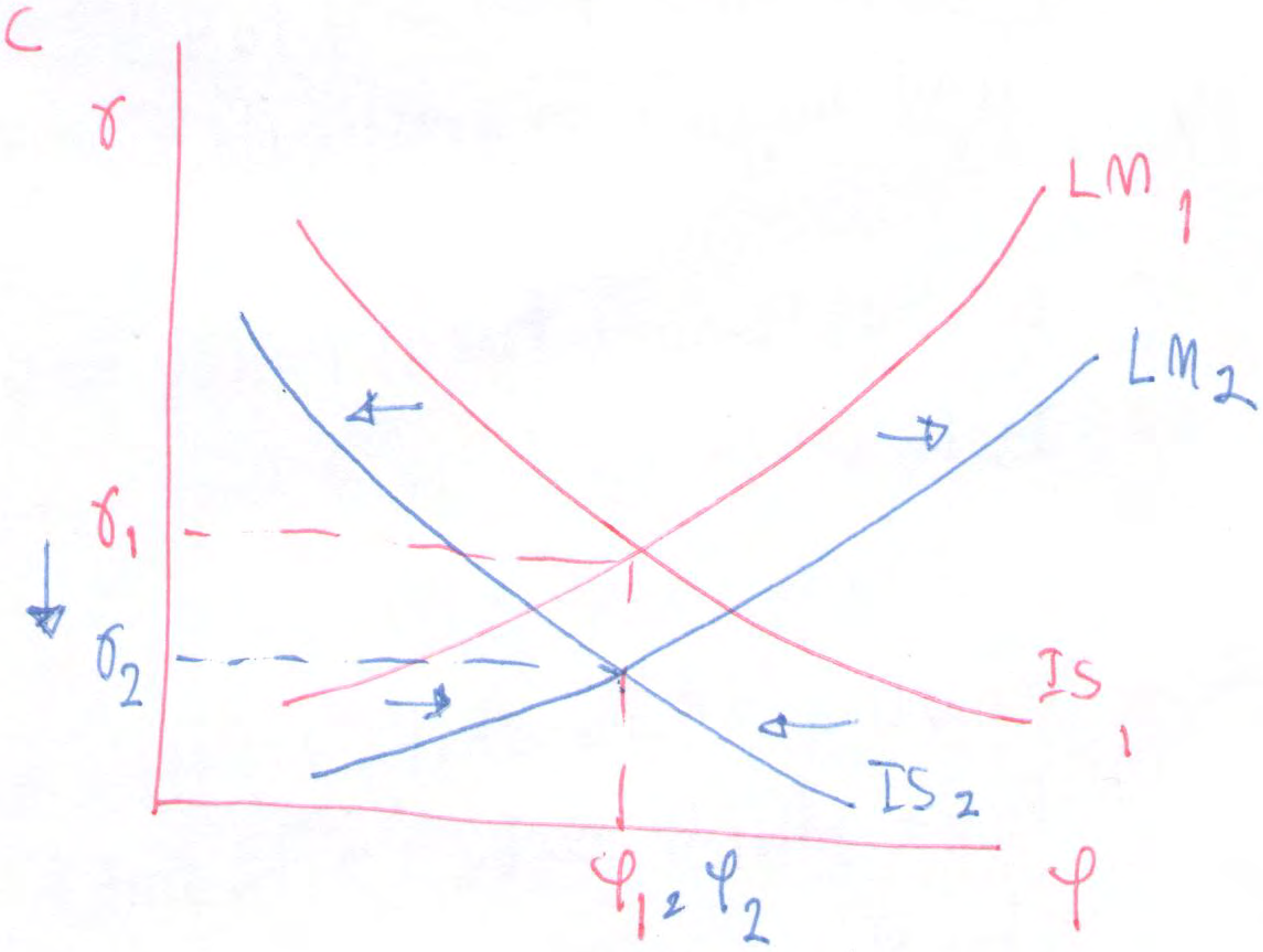


Expansion. fisc. Policy

IS shift right (due to T↓)

both r & Y increase but there is a crowding out effect.

5c



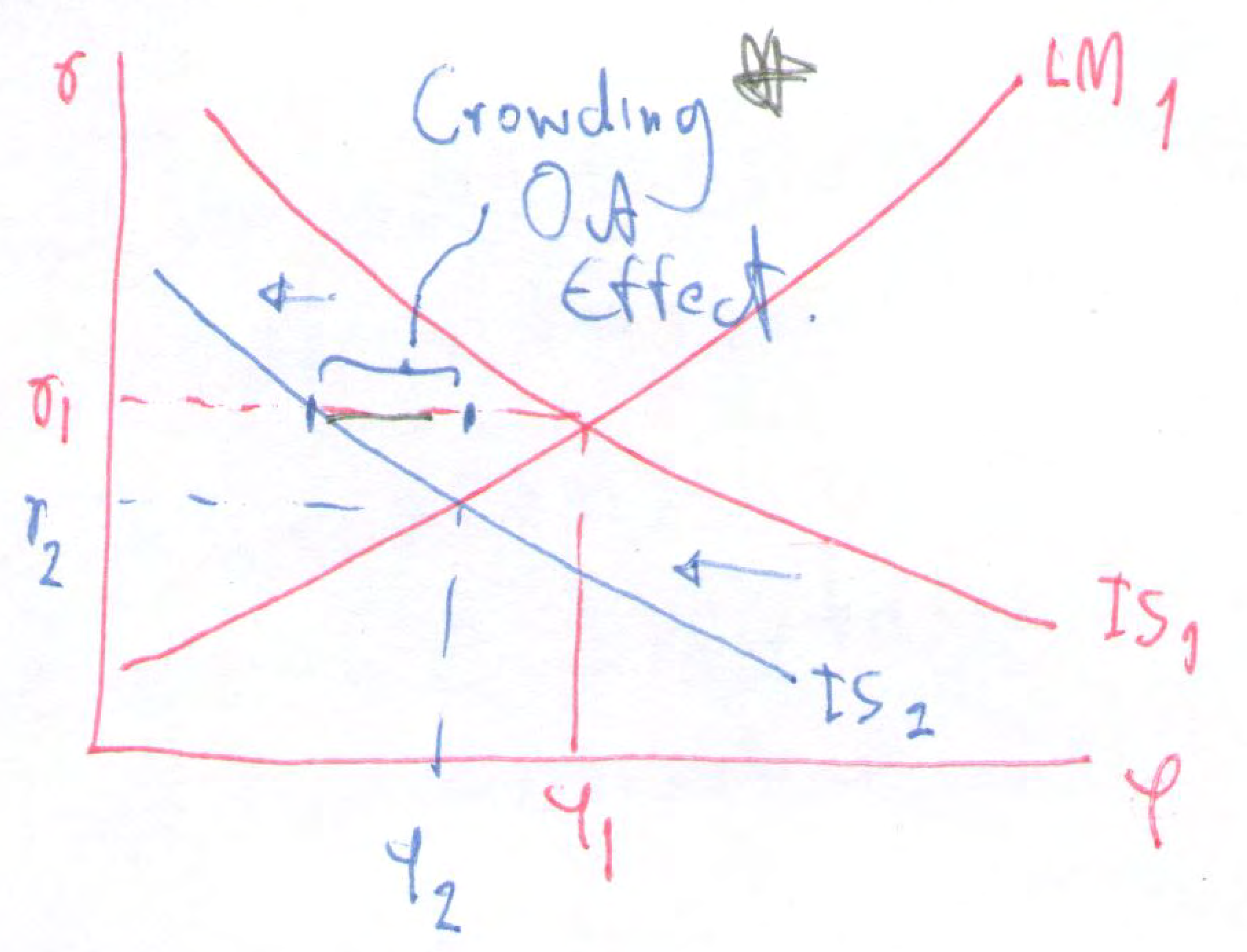
Contract. fiscal Policy
&
Expansionary Monet. Policy

- IS shift left (due to T↑)

- LM shift right (due to Ms↑)

- r decreases but change in Y is ambiguous

5d



reduction in C

the change happens to the constant term → shifting consumption function

- IS shift to the left.

- Both r and Y decrease

* But there is a crowding out effect. offsetting initial change

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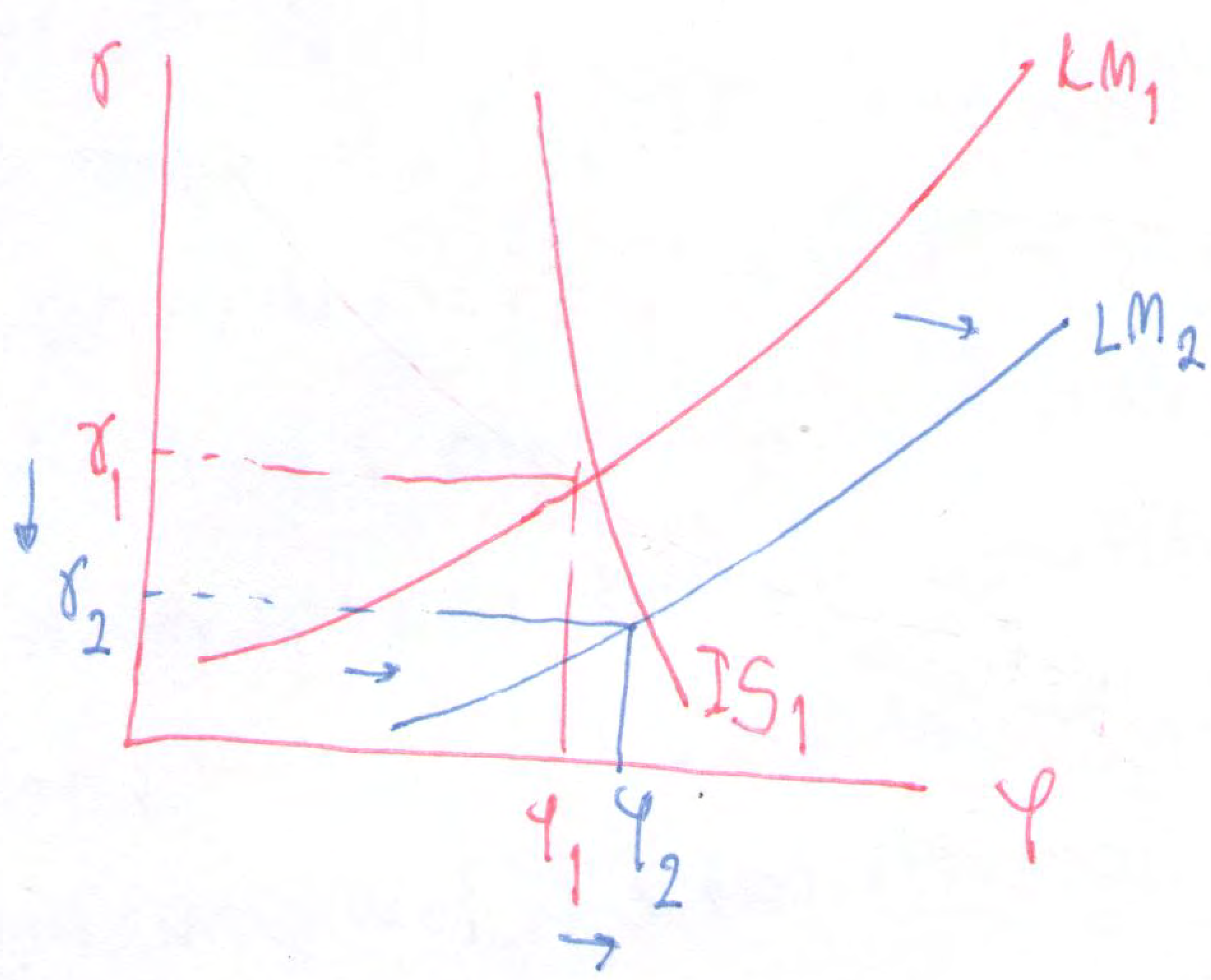
5e



Expansionary Monet. Policy

But IS is steep* due to I having low sensitivity to r

→ LM shift right

But because IS is steep
The decline in r is large
while the rise in Y is small

Monetary policy is not effective