Final Exam Quiz

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

ปล ผมจดไว้แล้วนะครับว่าตอนมิดเทอมใครลอกของใคร ครั้งนี้ขอเตือนเลยว่าผมไม่ยอมแล้วนะครับ

ผมต้องลงโทษ ไม่งั้นต่อไปคงไม่มีใครอยากซื่อสัตย์

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:

a. The crowding-out effect when the government increases its spending
b. 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.

a. Give ONE reason why this may happen.
b. Show and briefly explain the effect of the fall in L_0 on the 4 diagrams (Keynesian Cross, Money Market, IS-LM, AD).

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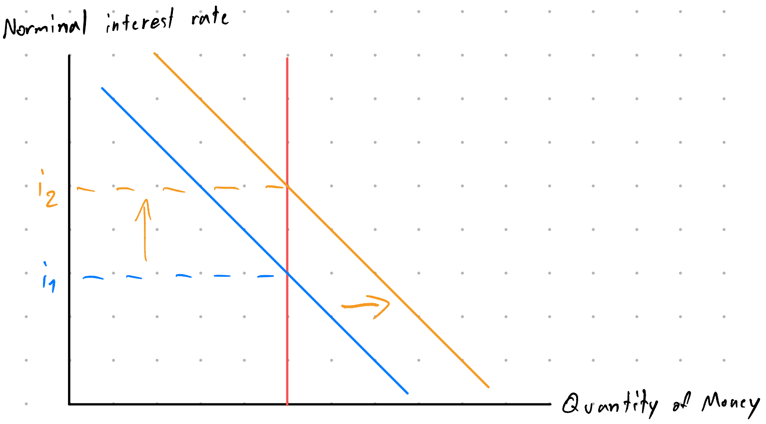
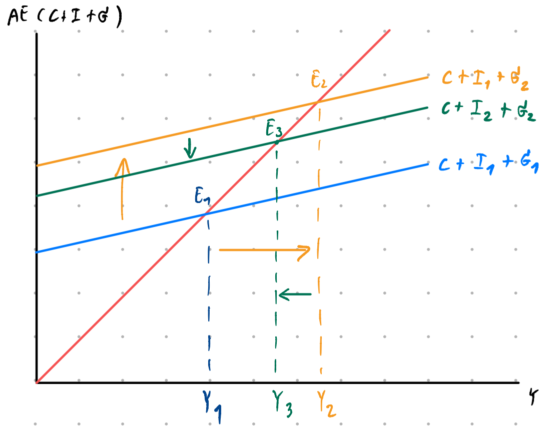
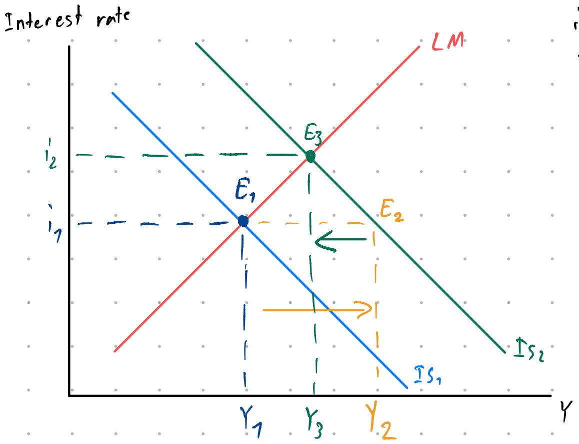
1) a)



Large demand for money from Government lead to rise in interest rate



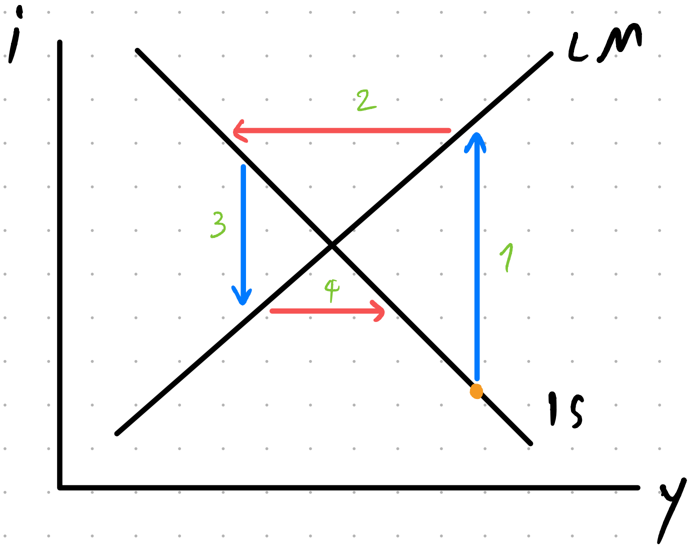
When G_1 increase to G_2, $C+I_1+G_1$ line shift up to $C+I_1+G_2$ line
However, it causes money demand and interest rate rise up, investment falls
This causes aggregate demand line shift down to $C+I_2+G_2$ and Equilibrium now at E_3



when $G \uparrow$, $Y_1 \uparrow$ to Y_2 at E_2
However, because of higher i at E_3, investment falls
As a result, Y_2 decreases to Y_3

b) Monetary policy
(Expantionaly)

(2)



(1) Money market: $M_s < M_d \rightarrow M_d \uparrow \rightarrow i \uparrow$: bank rise interest rate

(2) Good & Service market: $i \uparrow \rightarrow I \downarrow \rightarrow Y \downarrow$: firm produce less

(3) Money market: $Y \downarrow \rightarrow M_d \downarrow \rightarrow i \downarrow$: bank lower i

(4) Good & Service market: $i \downarrow \rightarrow I \uparrow \rightarrow Y \uparrow$: firm produce more

continue to cycle until it adjust toward Equilibrium point

3 a) Lo falls may be it because you got an accident.