Chayanon 6304640219

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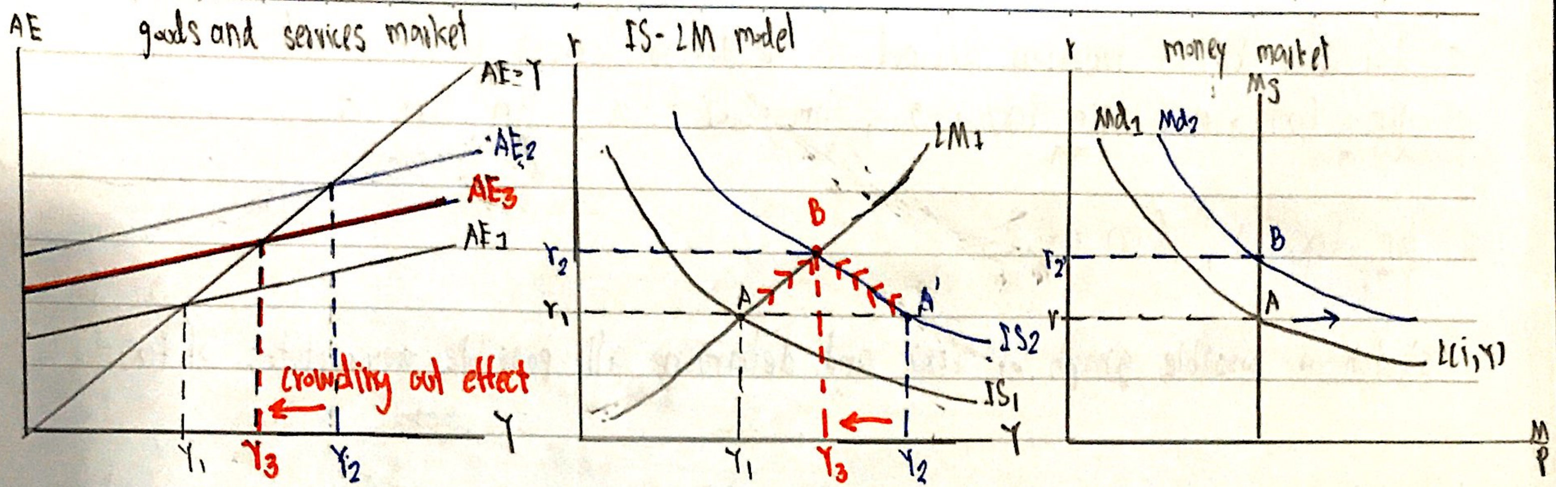
Q1



a.) starting from goods and services market, when the government increase spending, that will increase AE, making AE shift upward from AE_1 to AE_2. As a result, Y will increase from Y_1 to Y_2. The movement from Y_1 to Y_2 is multiplier effect.
This process of increasing spending also affect in IS-LM model. Since government's spending is exogenous variables, that will make IS shift rightward from point A to A' where Y increase from Y_1 to Y_2 and r stay the same in IS-LM model.

When Y increase, that will affect Md in money market,
Since Y is exogenous variables, Md will shift rightward from Md_1 to Md_2.
As a result, the new equilibrium in money market will be at point B and interest rate will increase from r_1 to r_2. Since r is endogenous variables, LM will move along the curve from A to B in IS-LM model.

When interest rat increase, I will drop. As a result, AE will shift downward and Y will decrease from Y_2 to Y_3 in goods and services market
∴ The movement from Y_2 to Y_3 is crowding-out effect #
The process of increasing r also make IS move along the curve from A' to B, which makes Y_2 decrease to Y_3. Point B is the new equilibrium in IS-LM model.

b.) To avoid the crowding-out effect, central bank should use monitary policy.

Q_2

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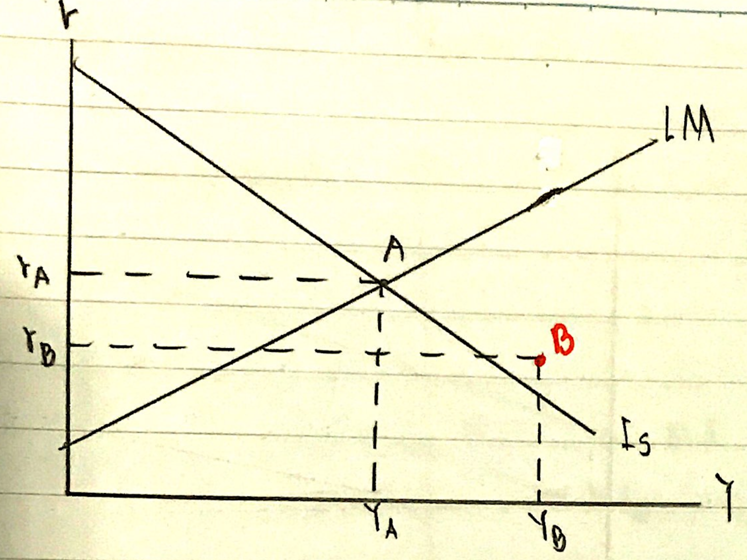


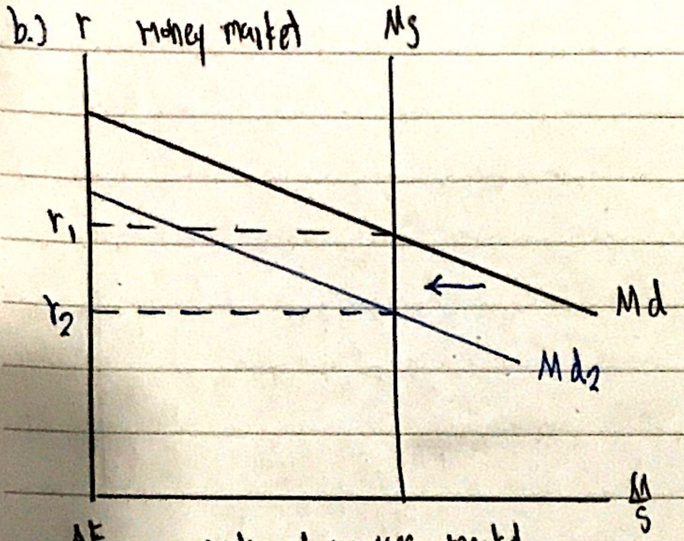
At point B, Y will tend to fall untill $Y_B = Y_A$ and r will tend to rise untill $r_B = r_A$

As a result, point B will move to point A.

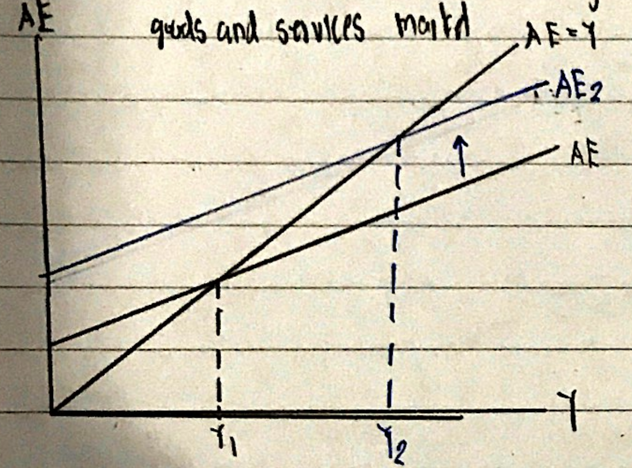
Q3

a.) The reason that Lo decrease is the boom of credit card, making people hold less money.

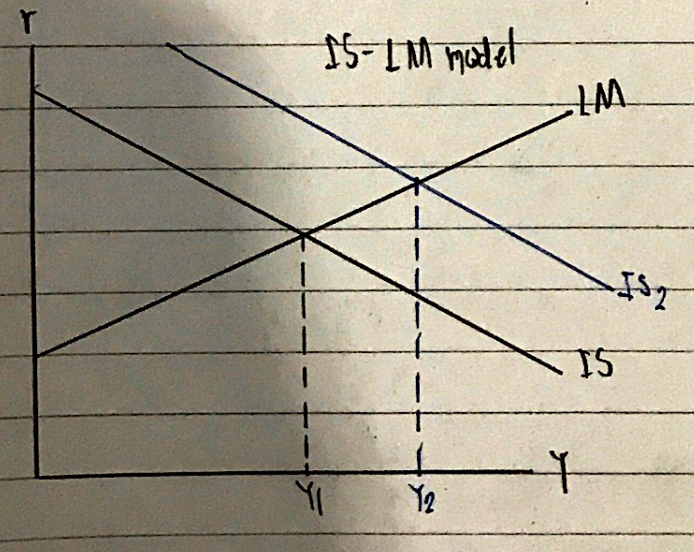
b.)

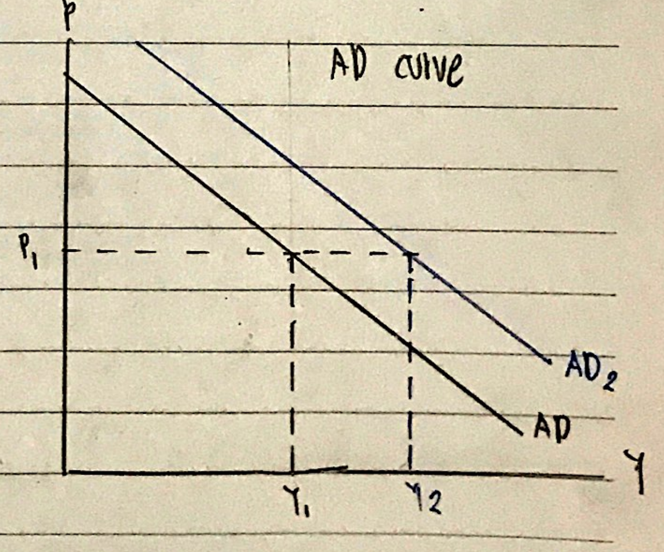


Lo fall, making Md shift left ward from Md1 to Md2. As a result, r will decrease from r_1 to r_2



when r decrease, I (investment) will increase, leading to increasing in AE (AE shift upward from AE_1 to AE_2) As a result, Y will increase from Y_1 to Y_2





The increasing in I make IS shift right ward. As a result, Y will increase from Y_1 to Y_2

- Since I (investment) is exogenous variable, that will make AD shift right ward