

Final Exam Quiz

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

ปล ผมจดไว้แล้วนะครับว่าตอนมิตเทอมใครลอกของใคร ครั้งนี้ขอเตือนเลยที่ผมไม่ยอมแล้วนะครับ

ผมต้องลงโทษ ไม่งั้นต่อไปคงไม่มีใครอยากซื้อสตั๊ด

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:

- The crowding-out effect when the government increases its spending
- 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

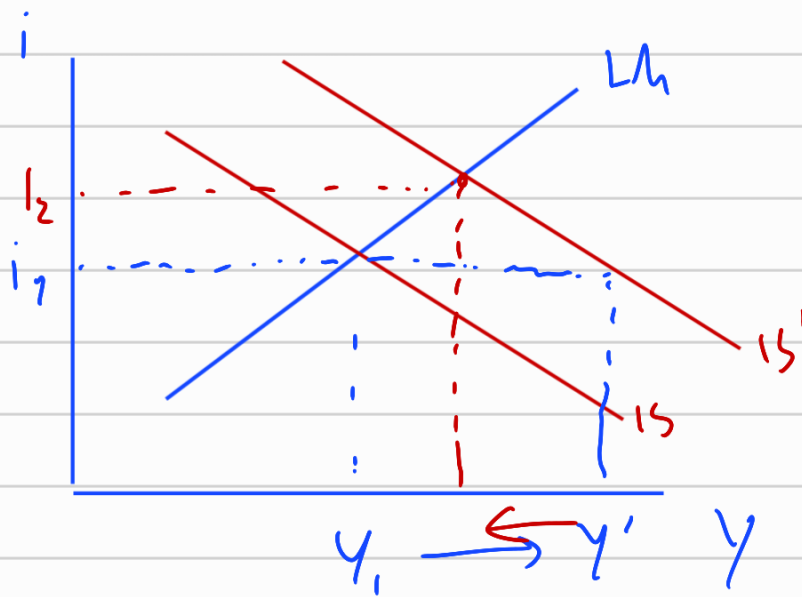
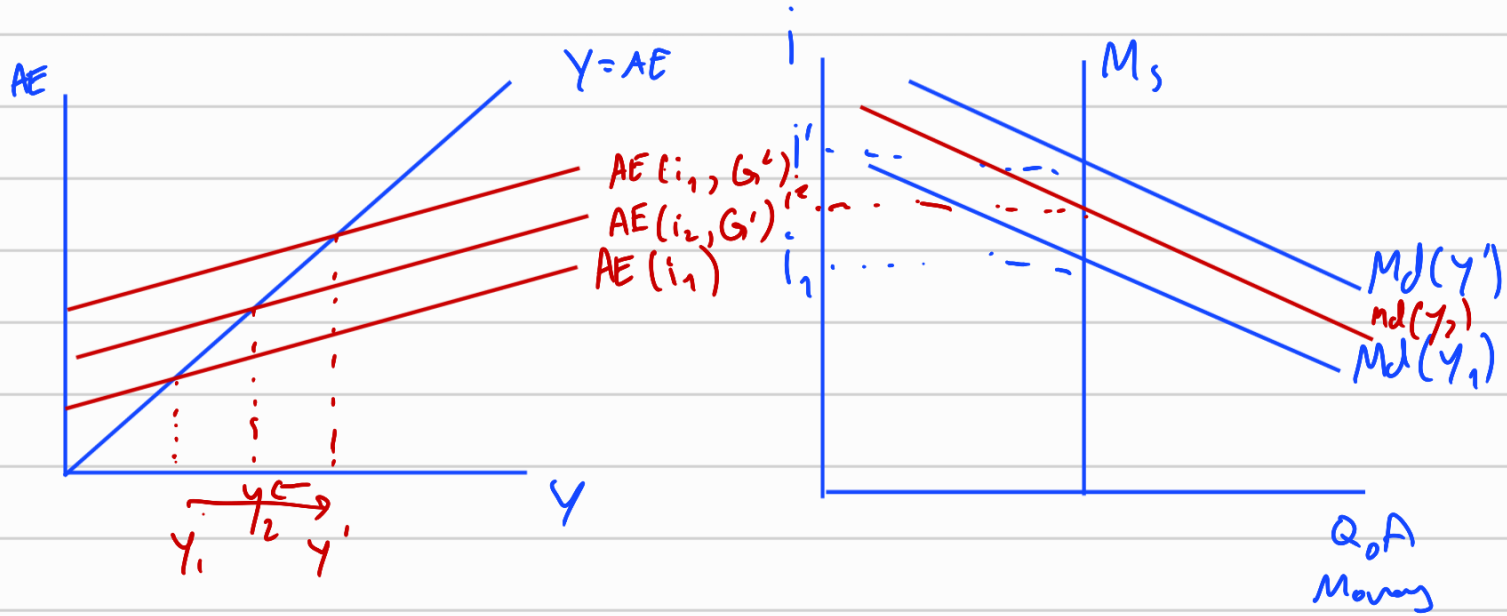
Assume that the liquidity preference function (real money demand) is given by the $L(Y, i) = L_0 + L_Y Y - L_i i$.

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.

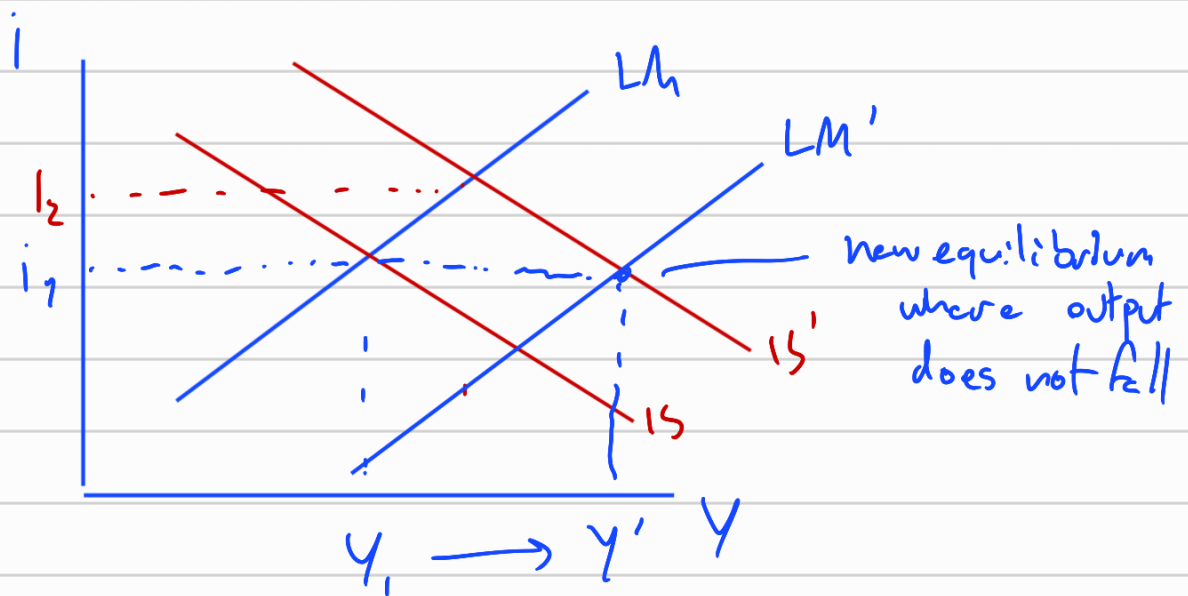
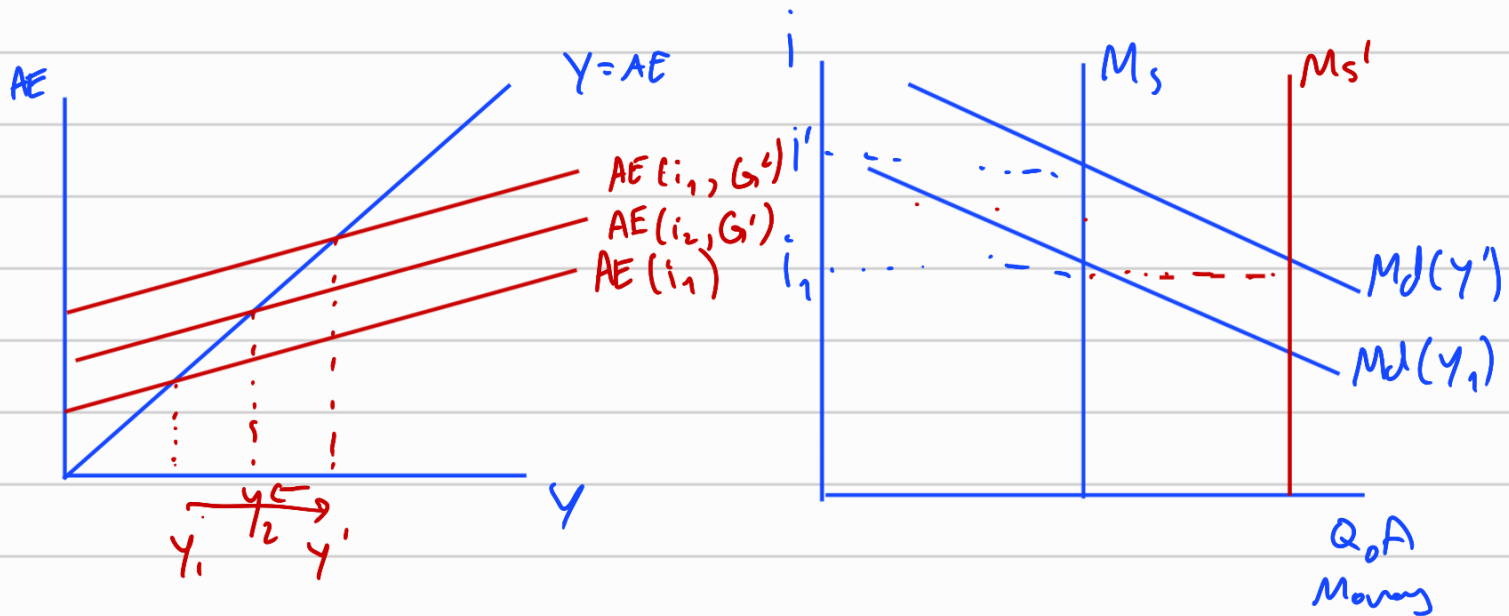
- Give ONE reason why this may happen.
- Show and briefly explain the effect of the fall in L_0 on the 4 diagrams (Keynesian Cross, Money Market, IS-LM, AD).

1a) Crowding-out effect happens when government increase its borrowing, causing income to rise but when income rises money demand rises resulting in a big increase in the interest rates thus lowering the investment or the private sector spending

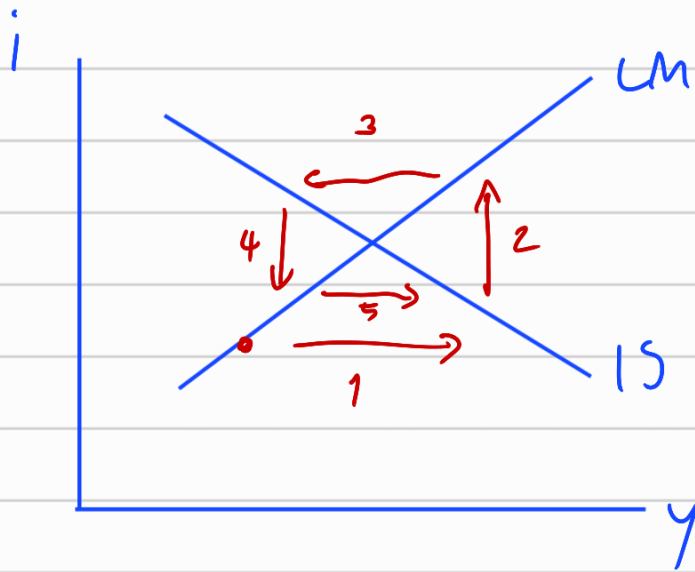


1b) When government increase its spending that is the fiscal policy so to not have the crowding-out effect the central bank needs to implement the monetary policy as well. (to not lower the output and improve policy's effectiveness)

(I will use the same set of graph to explain)



2)



1.) The money market is in equilibrium, but the goods market is not. Aggregate expenditure is more than the output so production increases (Y)

2.) The money market is now not in equilibrium so as output (income) rises, the money demand also rises causing the interest rate to increase by the central bank to reach equilibrium in money market.

3.) The increase in interest rate lowers the private sector spending (I) resulting in a decrease in output.

4.) The decrease in output (y) causing the money demand to drop and so the central bank lowers the interest rate.

5.) The low interest rate increases the public sector spending resulting in an increase of the output.

then step 2, 3, 4, 5 repeats until both markets reach the equilibrium (where $IS-LM$ intersects.)

3a) autonomous demand is exogenous so the change will not be related to price level, output or interest rate. The fall in L_0 or autonomous money demand could happen if the cryptocurrency or stocks or other kind of investment became safer and yield more profit, the demand for money would decrease because people would rather invest and care less about liquidity.

3b)

