

Final Exam Quiz

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.

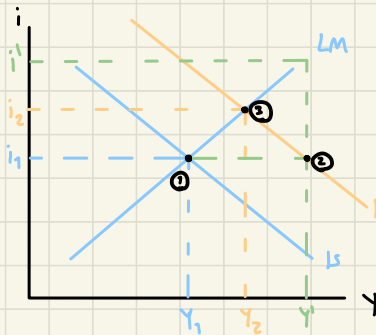
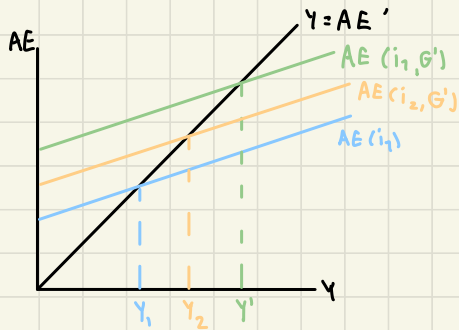
Now suppose that L_0 falls.

- 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).

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Q 1.)

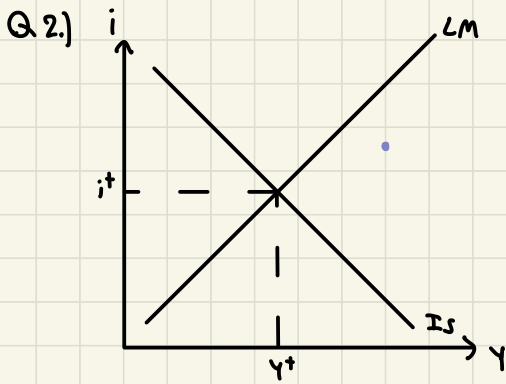
a.)



Explanation : $1 \rightarrow 2$ is when government increase its spending, your demand in economy will increase ($AE \uparrow$) the firm respond by producing more $2 \rightarrow 3$ is because everyone is richer, everyone want money to spend in their daily life so money demand increase lead to raise in interest rate and discourage investor to invest and as a result AE decrease making market equilibrium move to E_3

b.) Expansionary monetary policy

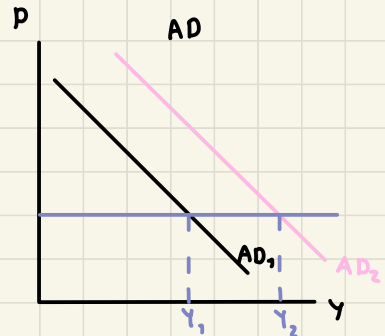
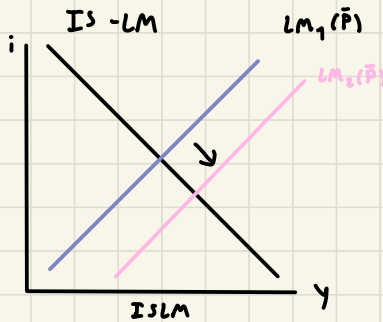
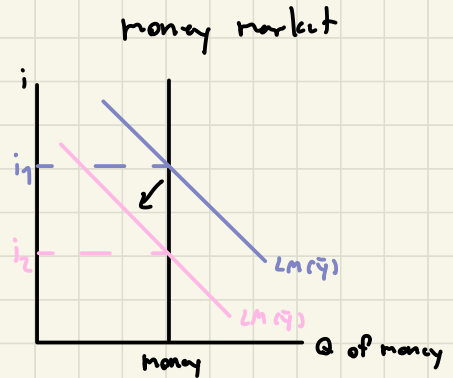
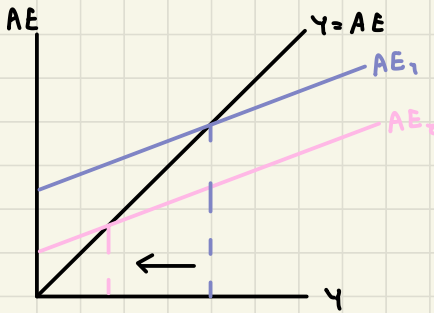
- When central bank increase money supply, bond issuer will lower interest rate
- Because of lower interest rate, people want to invest more. Firm increase investment making demand in economy raise. Firm produce more to supply at higher demand
- as a result, a new equilibrium has higher output but lower interest rate



Adjust From blue point
 We have to adjust both market below the LM curve. It's because excess in money demand, so interest rate of bond should increase above the IS curve. It's because in G&S market when output is more than AE Firm should produce less to reduce investment the blue point will shift to the left.

Q 3.) a) Money supply decrease.

b.) autonomous money demand $L_0 \downarrow$



At some level of income, interest rate lower
 LM shift down