

ASSIGNMENT 1: DUE FRIDAY 31ST (BEFORE 23.30) *ANALYZE SHOCKS WITH THE IS-LM MODEL*

Use the *IS-LM* model to analyze the effects of

1. a boom in the stock market that makes consumers wealthier. (odd-numbered group)
2. after a wave of credit card fraud, consumers using cash more frequently in transactions. (even-numbered group)

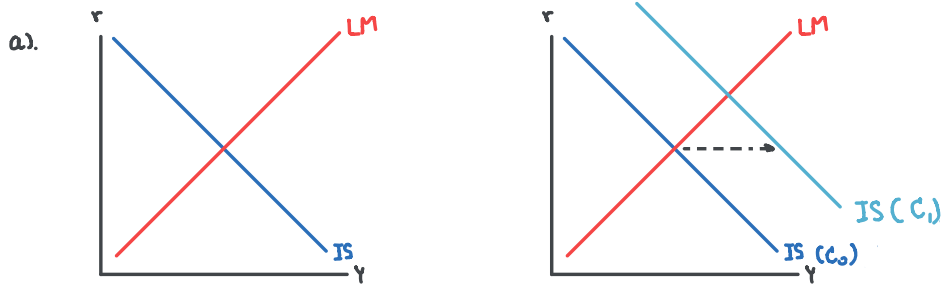
For each shock,

- a. use the *IS-LM* diagram to show the effects of the shock on Y and r . Explain the mechanism.
- b. determine what happens to C , I , and the unemployment rate.

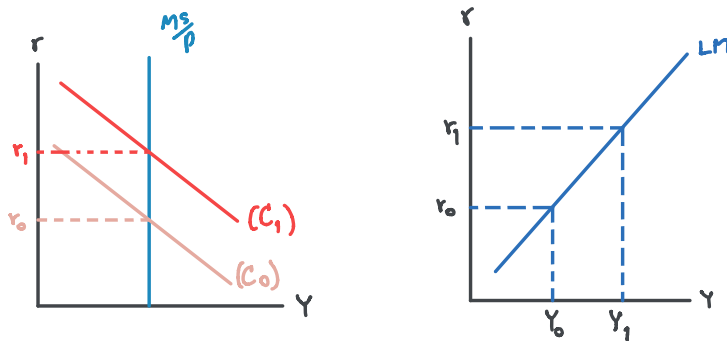
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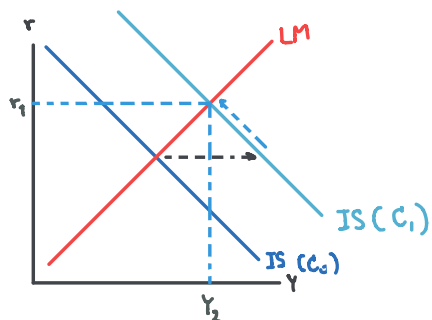
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If consumer is wealthier cause more ability to consume so C increase, AE increase then Y increase make IS shift upward.



since Y change make r also increase but LM move along the curve then when r increase make investment decrease also as Y .



In conclusion, for a boom in stock make consumer wealthier which make Y and r increase causing crowding out effect.