<u>Quiz EE212</u>

Raveena Rungsitthiwat

Time allowed: 1 hour from 19.00 – 20.00

6404640978

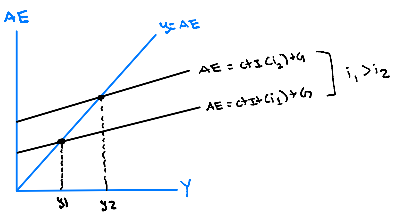
Submission time: 15 minutes

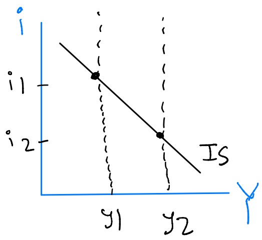
Latest submission by 20.15

Do not write too much. Brief explanation is sufficient.

1. Use TWO relevant diagrams to explain how the IS curve is derived from the goods market.
2. Use TWO relevant diagrams to explain how the LM curve is derived from the money market.
3. Use relevant diagrams to explain how the AD curve is derived from the IS-LM model.
4. Use relevant diagrams to explain how the SRAS curve is derived from the labor demand and the production function.

1.





" IS curve represent all eqbm in Keynesian cross at different level of i (locus of points) "

IS curve shows negative relationship between y and i in gds market

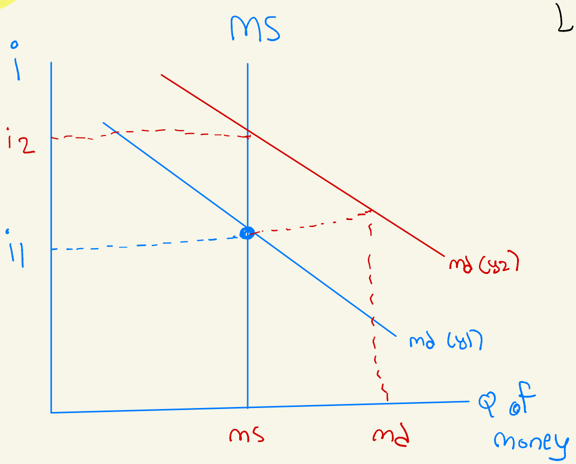
IS curve : $y = C(Y-T) + I(i) + G$

IS Relation : $i\downarrow \rightarrow I\uparrow \rightarrow AE\uparrow \rightarrow Y\uparrow$

- Suppose i decreases from i_1 to i_2, lower i encourage investors and raise AE.
- Therefore, when AE increases, Y also increase from y1 to y2

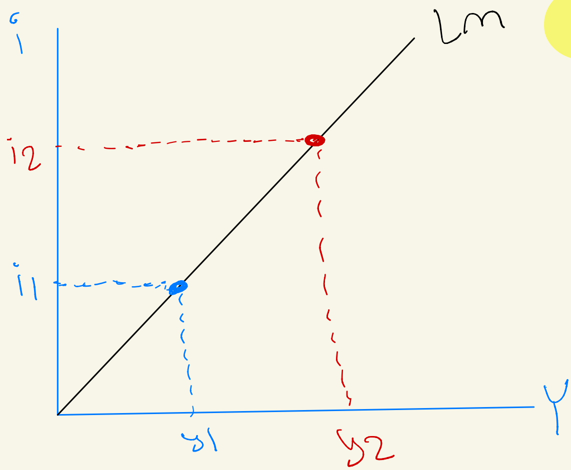
∵ It shows negative relationship between i and Y.

2.



Lm curve shows positive relationship between y and i in money market

Lm curve represents all eqbm in money market → md = ms



LM Relation: Y↑ → md↑
i↑ → md↓
md = ms

constant b/c control by CB

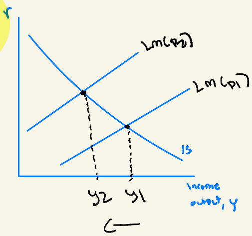
depend on income

∴ when your income goes up, you must have higher i to keep the money market in the eqbm.

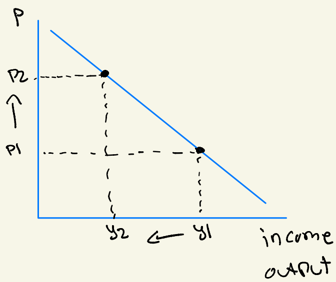
1. Y↑ (people want to hold cash) → md↑ (shift md →) → shortage of money
→ people will convert bond into cash.

2. People who wants to borrow (Bond issuer) will ↑ i to reduce Md (md↓)
∴ Md will remain equal to Ms.

3.



The IS-LM model



4.