Final Exam Quiz

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

ปล ผมจดไว้แล้วนะครับว่าตอนมิดเทอม ใครลอกของ ใคร ครั้งนี้ขอเตือนเลยว่าผมไม่ยอมแล้วนะครับ
ผมต้องลงโทษ ไม่งั้นต่อไปคงไม่มีใครอยากซื่อสัตย์

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:

a. The crowding-out effect when the government increases its spending
b. 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.

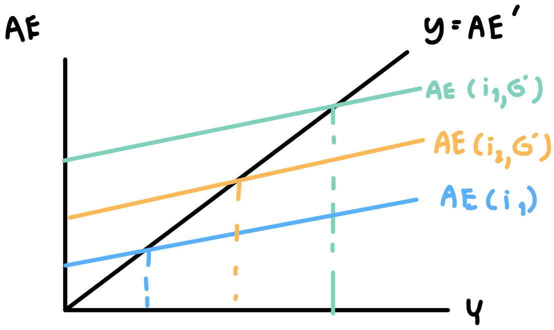
Now suppose that L_0 falls.

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

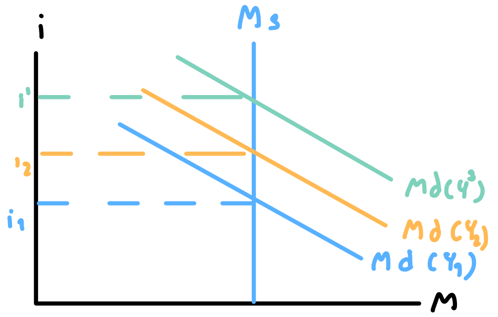
6304641126 Pitchayapa

Draw 3 diagrams (Keynesian Cross, Money Market, IS-LM) to **show and briefly explain** the followings:

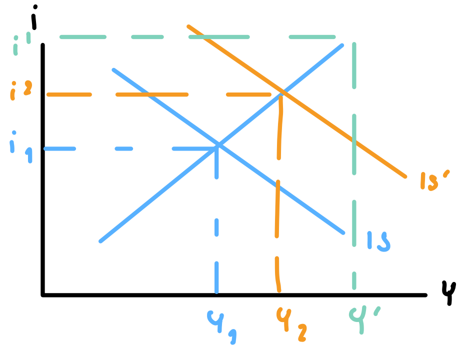
a. The crowding-out effect when the government increases its spending



When Y increase AE will increase



When i increase Md will decrease by Ms is constant



when i and Y increas is will decrease

1) GM : G↑ → AE↑ → Y↑

2) MM : Y↑ Md↑ → i↑

3) GM : i↑ → I↓ → Y↓ crowdin-out effect

1) Gm when G increase AE and Y will increase

2) MM when Y increase MD and i will increase

3) GM when i increase I and Y will decrease Y decrease is crowding effect → when government spend more but lead to discovrage the investors due to high i

b. Another policy that can be used to avoid the crowding-out effect

" Full explanation "

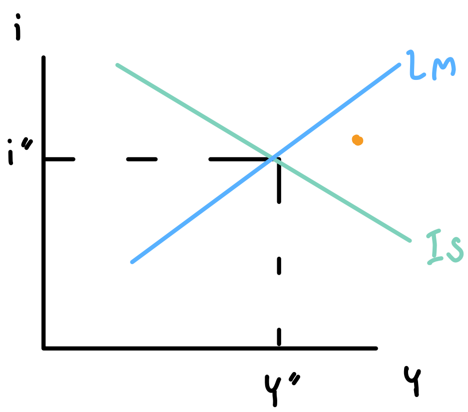
• when central bank increase money supply (MS), bond bond issuer will lower interest rate (i)

• with lower interest rate investment become attractive. Firm increase investment. It rise demand for economy. Firm produce more to supply at higher demand (so y = AE)

→ as a result, the new equilibrium has higher output but lower interest rate

<u>Question 2</u>

Draw the IS-LM diagram. **<u>Pick ANY point on either the IS curve or the LM curve</u>** (NOT the general equilibrium point). ย้ำว่าเลือกจุดไหนก็ได้ที่อยู่บนเส้น IS **<u>หรือ</u>** LM **<u>ที่ไม่ใช่จุดตัดตรงกลางของสองกราฟ</u>**
<u>Use the diagram that you draw to briefly explain</u> how the two markets at **<u>your current point</u>** will adjust towards the general equilibrium.



We have to adjust both market below the LM curve. It's become excess in M_s, So interest rate in bond should increase above the IS curve.

It's because in G & S market Y > AE firm should produce less to reduce investment the orange point will shift to the left.

Question 3

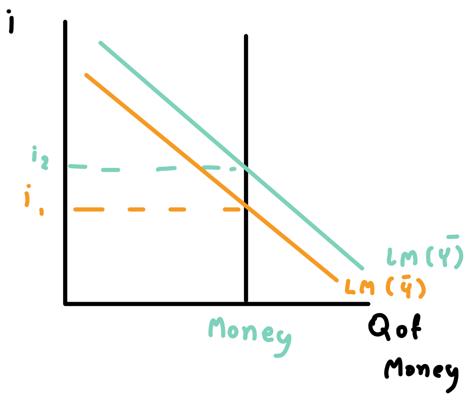
Assume that the liquidity preference function (real money demand) is given by the $L(Y, i) = L_0 + L_Y Y - L_i i$.

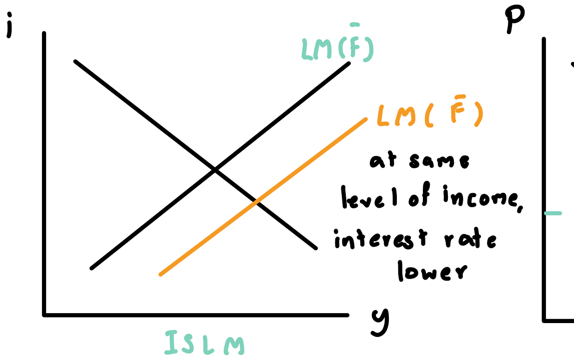
Note that **L_0 is autonomous money demand**, while other terms are the same as in the lecture slides.

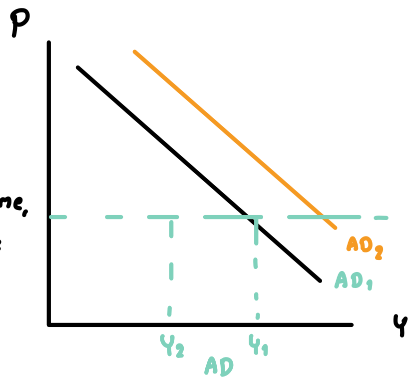
Now suppose that L_0 falls.

a. Give ONE reason why this may happen. Non price factor in bold

b. Show and briefly explain the effect of the fall in L_0 on the 4 diagrams (Keynesian Cross, Money Market, IS-LM, AD).







LM shift to the right / shift down

when i and Q increase LM will decrease by money is constant

When i and y increase LM will increase

when and Y increas AD will decrease