



Group 1

EE312 assignment 1

6104640310 Kwintara K.

6104640351 Oravee S.

6104640401 Prima D.

6104641201 Patcharaporn P.

6104641268 Lalita T.

A boom in stock market makes consumers wealthier because it increases wealth of household which create an exogenous change in consumption. At the old equilibrium E_0 , IS curve intersects with LM curve at y_0, r_0 . After the boom, designed aggregate expenditure (DAE) increase and contributes to increase of output. The increasing in DAE is the direct impact that cause y_0 to increase to y' and shift the equilibrium point to E' , which is the traditional Keynesian Equilibrium where interest rate remains the same at r_0 . The size of the horizontal shift depends on multiplier effect or the marginal propensity to consume (MPC). Later, as the output increase, the demand for money also increase. This cause interest rate to increase from r_0 to r' . The rising of interest rate partially contributes to the drop in y because households and investors are likely to reduce their consumption and investment due to higher interest rate. y' drops to y_1 . E_1 is the new equilibrium in IS-LM model.

(b) We can see that a boom in the stock market affects to increase in consumption.

After that, output (Y) rises and it leads to an increase in interest rate.

Due to an increase in interest rate, it reduces investment spending.

Moving to the unemployment rate, it falls since firm wants to hire more labor in order to generate more output (Y) which derive from aggregate demand

showing the relationship between gross output at every price.