

**Quiz EE212**

**Time allowed: 1 hour from 19.00 – 20.00**

**Submission time: 15 minutes**

**Latest submission by 20.15**

**Do not write too much. Brief explanation is sufficient.**

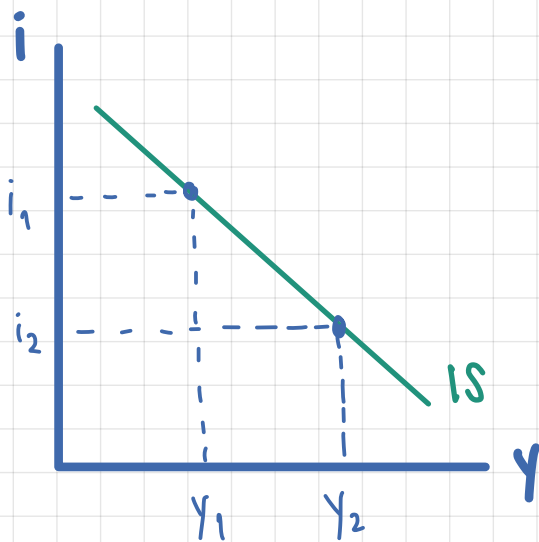
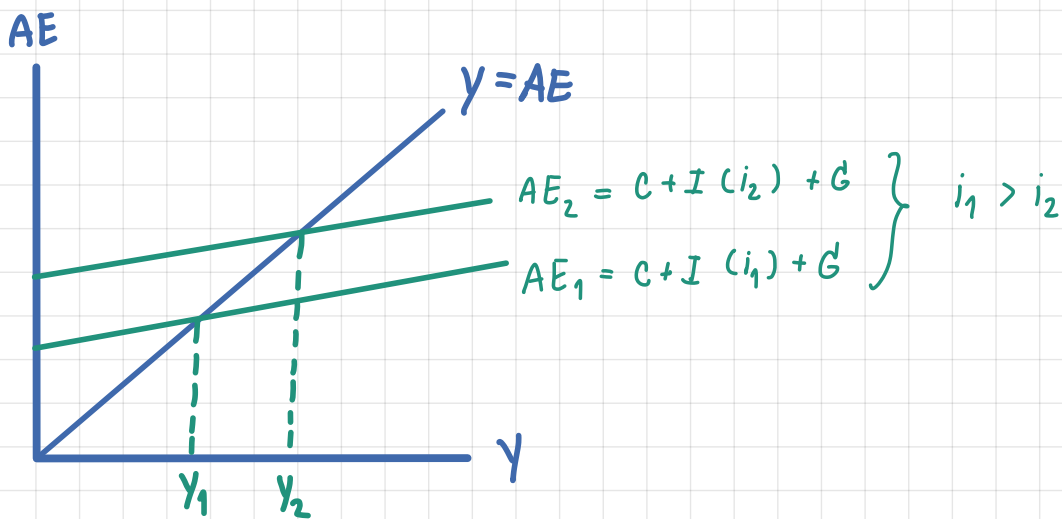
1. Use TWO relevant diagrams to explain how the IS curve is derived from the goods market.
2. Use TWO relevant diagrams to explain how the LM curve is derived from the money market.
3. Use relevant diagrams to explain how the AD curve is derived from the IS-LM model.
4. Use relevant diagrams to explain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

1. the IS curve shows the negative relationship between  $i$  and  $Y$  in goods market.

As investment depends on interest rate. when interest rate go up, the investment will go down. This leads to decrease in  $AE$ , and the output also decrease.

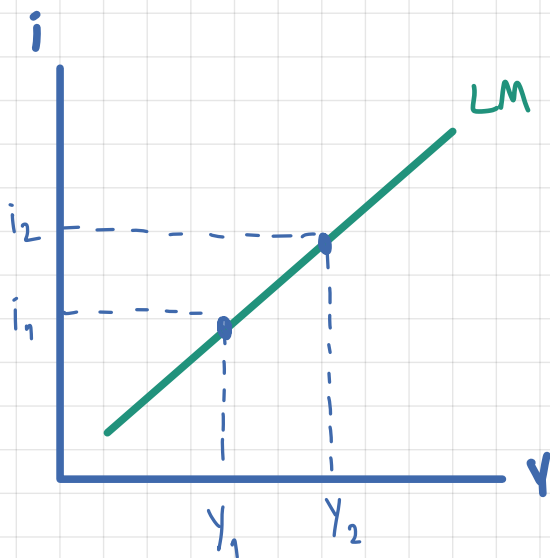
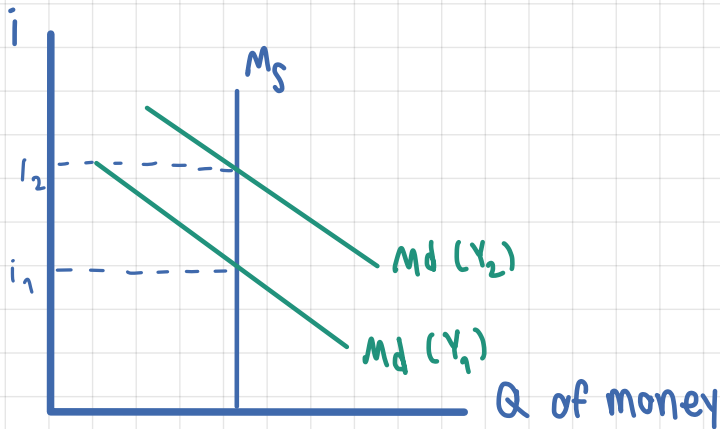
goods market

$$i \uparrow \rightarrow I \downarrow \rightarrow AE \downarrow \rightarrow Y \downarrow$$



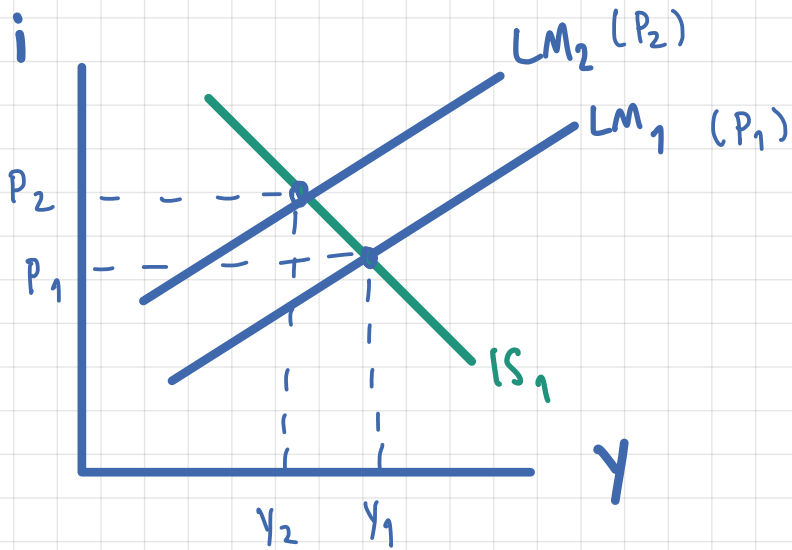
2. The LM curve shows the positive relationship between  $i$  and  $Y$  in money market

$$\left. \begin{array}{l} Y \uparrow \rightarrow M_d \uparrow \\ i \uparrow \rightarrow M_d \downarrow \end{array} \right\} M_d = M_s$$



3. increase in  $P$  will reduce the real money supply, so the interest rate will increase. higher interest rate discourages investment, and the output also decrease.

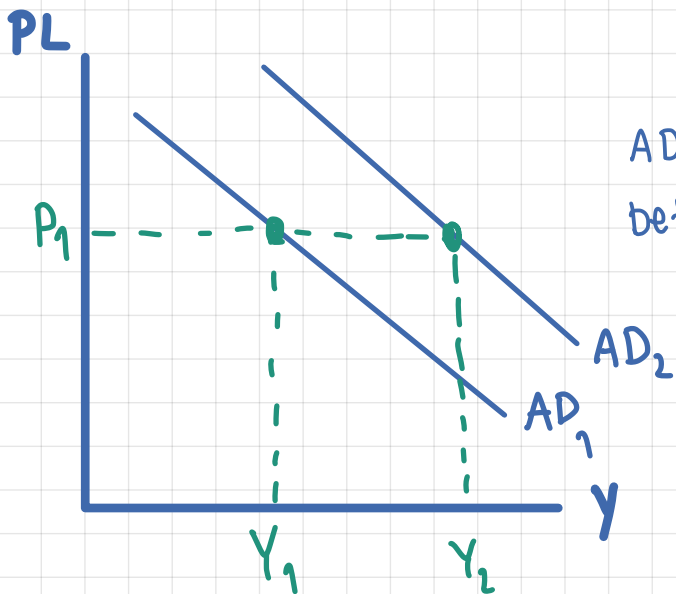
$P \uparrow \rightarrow Y \downarrow$



MM:  $P \uparrow \rightarrow \frac{M}{P} \downarrow \rightarrow i \uparrow$

so, LM curve shift left

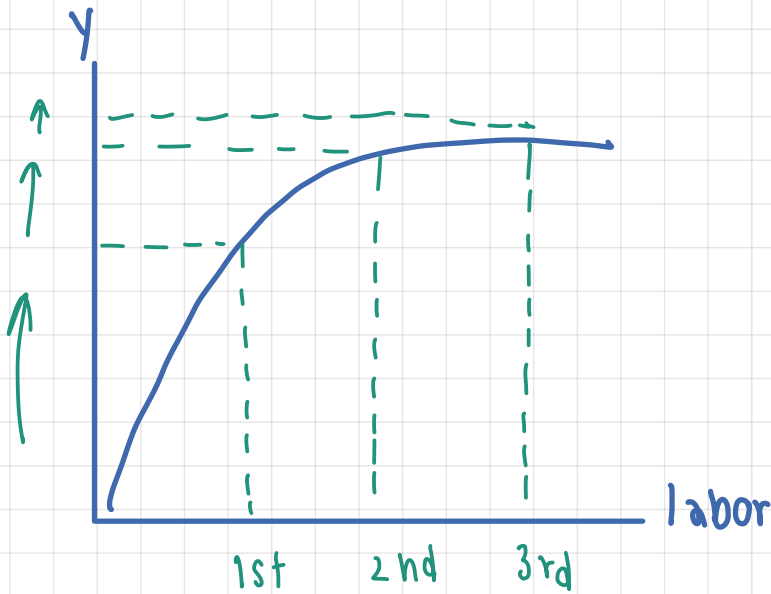
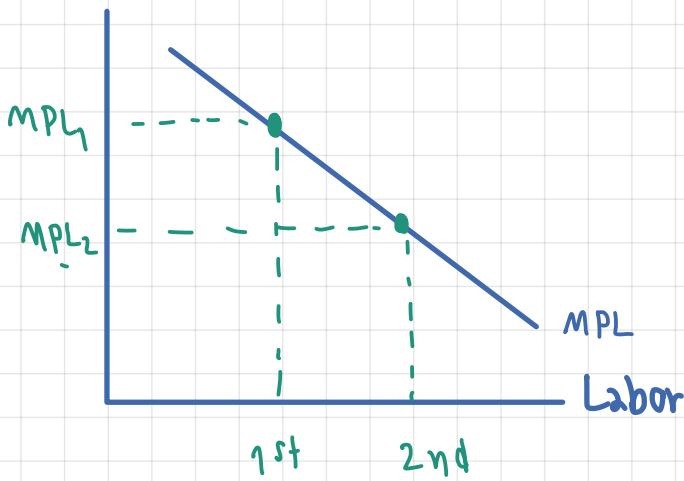
GM:  $i \uparrow \rightarrow I \downarrow \rightarrow AE \downarrow \rightarrow Y \downarrow$



AD shows the negative relationship between price level &  $Y$

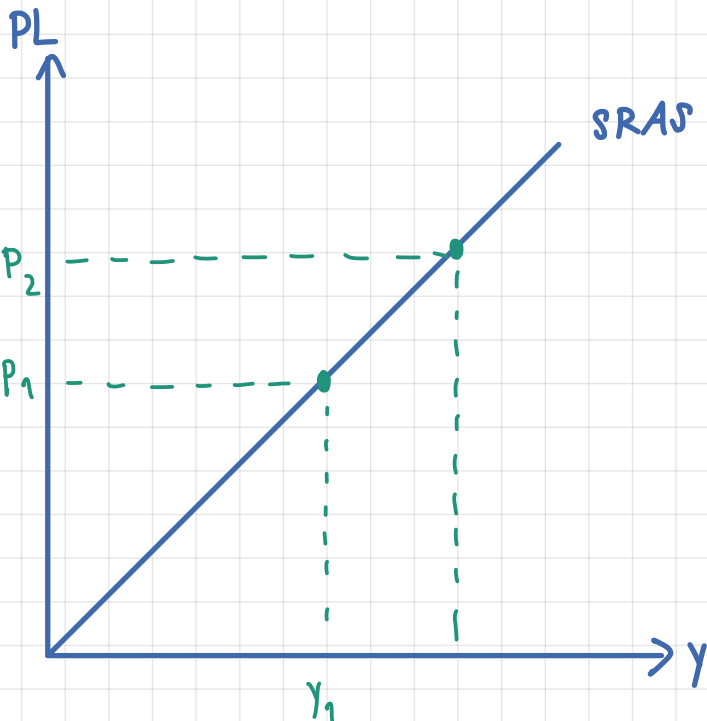
4.

real wage ( $\frac{w}{p}$ )



flatter = less MPL

MPL = slope of production function



when  $P \uparrow \rightarrow$  real wage  $\downarrow \rightarrow L \uparrow \rightarrow Y \uparrow$