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).

a) In my opinion one reason that can make autonomous money demand decrease because some of depression that had occured in US that make money currency decrease and also cause deflation.

b)