Checking your state of knowledge….

State of your knowledge is so important in this class. If you had previous trainings in EE212, all these questions should be comfortable to you. Answer each of this question when you refresh your memories on IS-LM model during the weekend.

1. Describe the adjustment toward equilibrium under the Keynesian cross model. What is the role of planned and unplanned inventory in the analysis?

2. Discuss and explain about the concept of multiplier.

3. What is the IS curve? Explain the underlying intuition for the IS relation.

4. What are the factors that determine the slope of IS curve? Should the IS curve be steeper or flatter if both private consumption and private investment are more responsive to the interest rate

5. An increase in government spending would cause (a) a movement along the IS curve or (b) an outward shift of the IS curve. Why?

6. What determine the size of a *horizontal shift* of the IS curve? (Hint: you may think about the exogenous increase/decrease in autonomous expenditure.) Does the size of a horizontal shift have any relationships with slope of the IS curve? Why or why not? Explain.

7. What is the LM curve? What determine the slope of LM curve?

8. What are the factors that determine the slope of LM curve? Should the LM curve be steeper or flatter if demand for money sensitively responds to market interest rate?

9. A systemic panic in financial markets would cause (a) a movement along the LM curve or (b) an upward shift of the LM curve. Why?

10. Would it the effect of fiscal policy (either tax cut or the increase in government spending) be more pronounced (stronger) under the IS-LM model than under the traditional Keynesian cross? Why?

11. Why does the aggregate demand curve have a downward sloping shape? Explain the intuition. Link the analysis to your IS-LM model.

12. Does the increase in money supply cause (a) a movement along the aggregate demand curve or (b) an upward increase in aggregate demand curve? Explain the underlying mechanisms for your answer. Link the analysis to your IS-LM model.