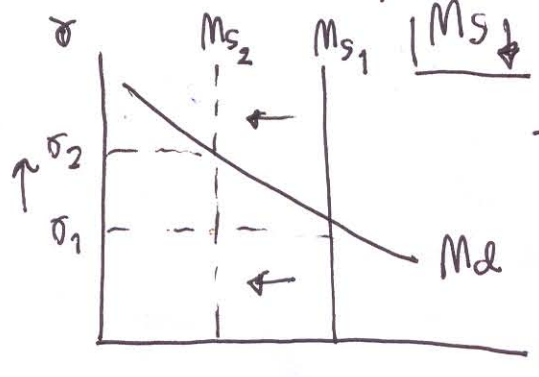
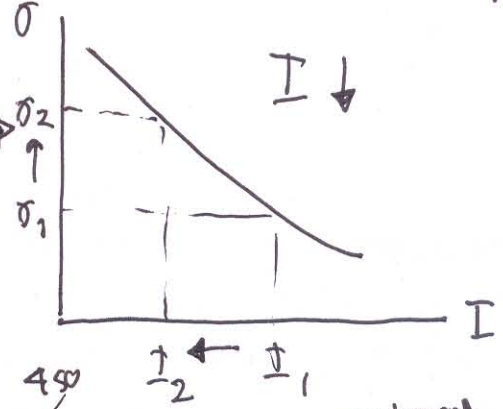
HW Ch.12

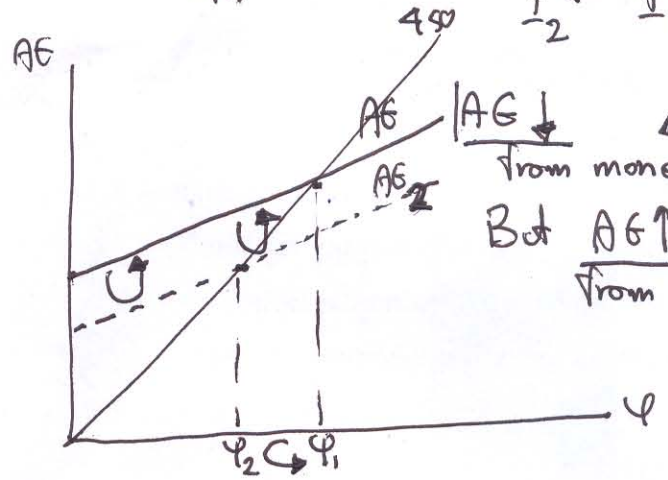
Q5. → a) Contractionary Monet. Policy & Expansionary fiscal Policy



MS ↓ → r ↑ → I ↓



* Resulting effect on Y is ambiguous Bc r has increased.

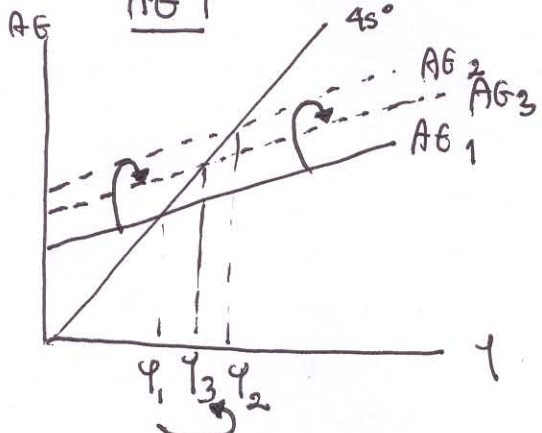


AE ↓ from monetary policy

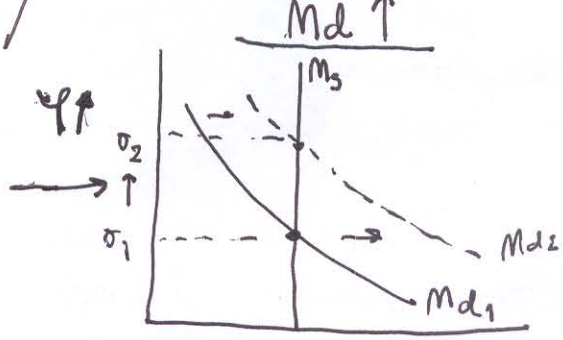
But AE ↑ from expansionary fiscal policy

b) Expansionary fiscal Policy

AE ↑



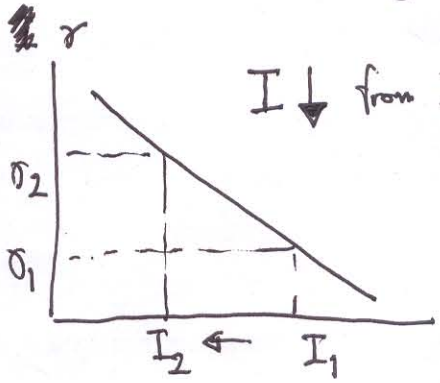
Md ↑



Y ↑ → r ↑

* Crowding Out effect occurs

AE ↓



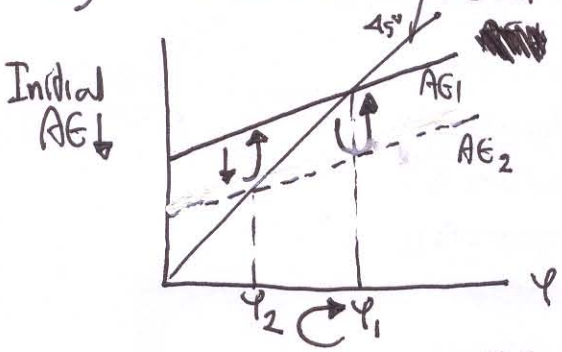
I ↓ from I_1 to I_2

AE ↓ Y ↓

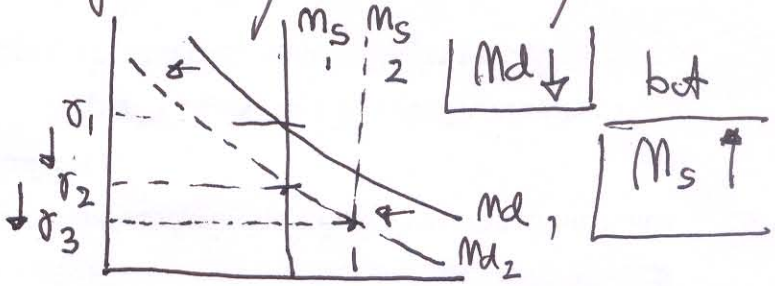
But less than initial → So, in the end, Y ↑

Q5 (Cont.)

c) Contractionary fiscal Policy + Expansionary Monet Policy



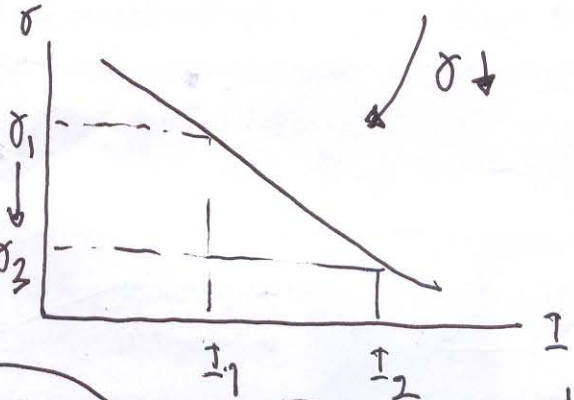
Y↑



Md↓ but Ms↑

Change in I will be large due to combined effect of crowding-out effect and monet. policy

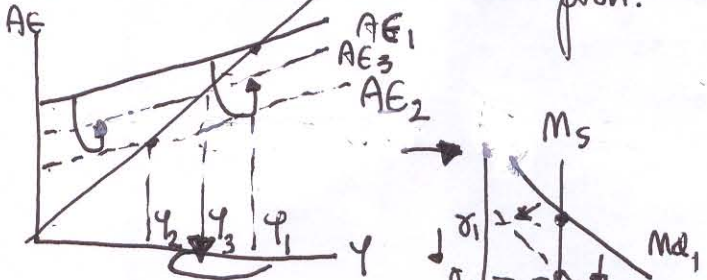
Push AE↑

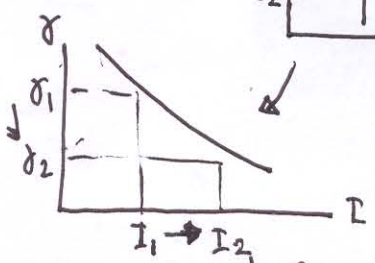


r↓

This means there may in the end be no change in Y

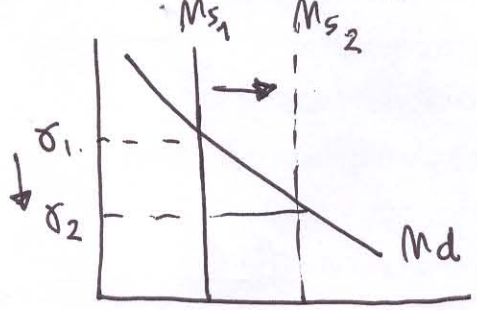
d) Reduction in Consumption.



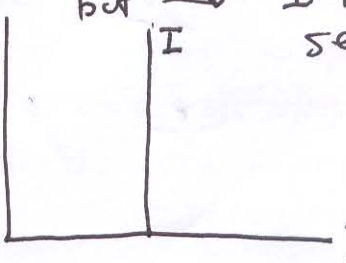


some crowding-out effect offsetting the initial change in AE caused by ↓C

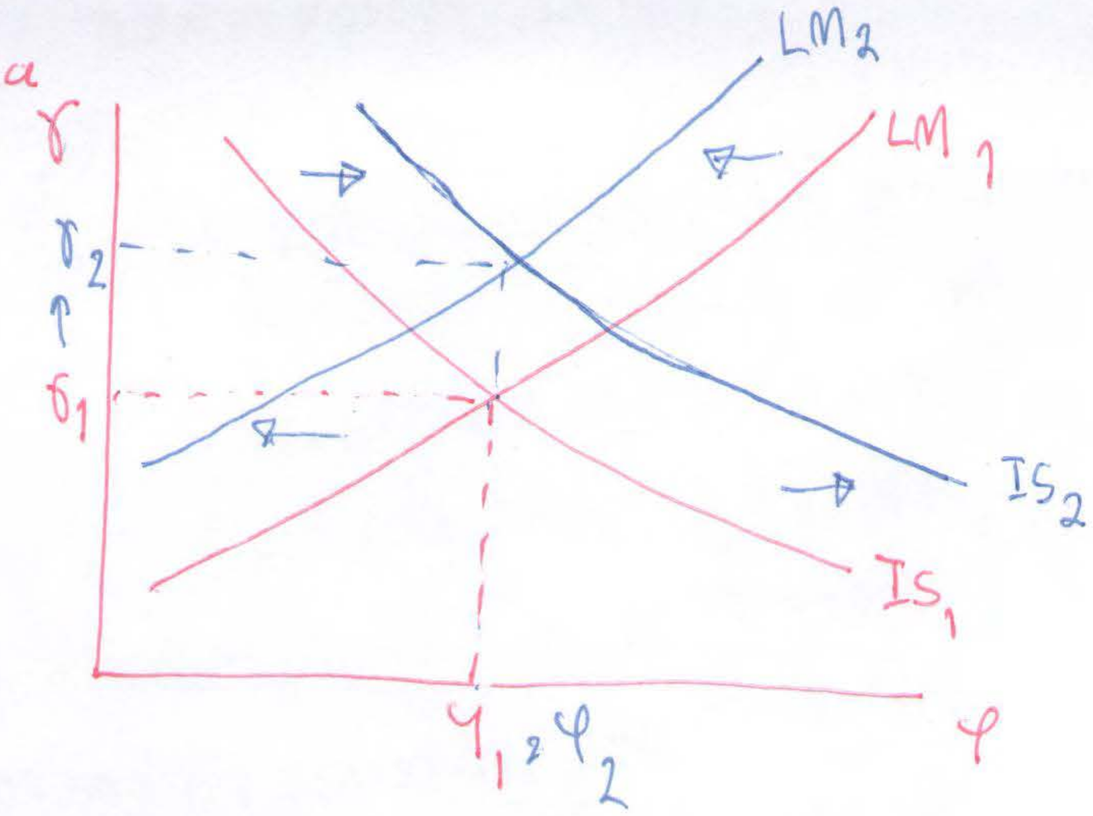
e) Expansionary Monet. Policy → but the sensitivity of I to r is low



r↓ → r but I not sensitive to r



Q5a



Contract. Monet. Policy
&
Expansion. fisc. Policy

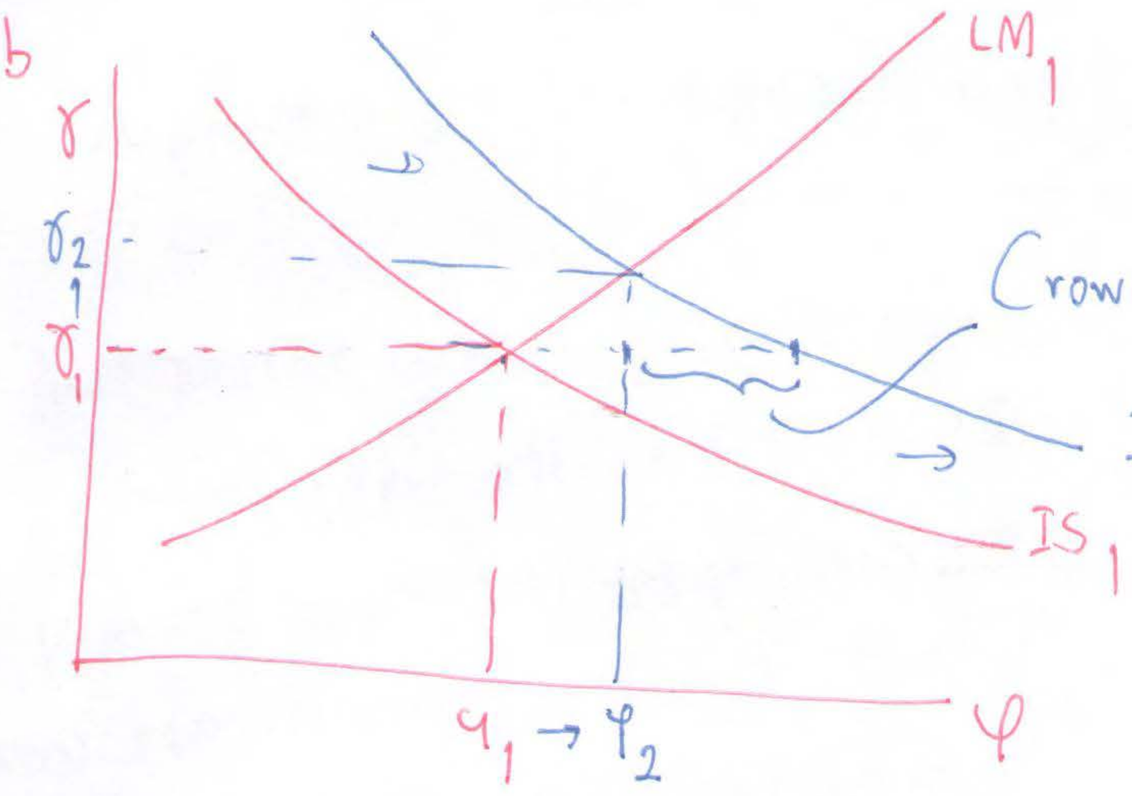
→ LM shift left due to $M_S \downarrow$

→ IS shift right due to $T \downarrow$

→ r increases but change in Y is ambigvors

(See more on what happens through graphs explain money / goods / mkts)

5b

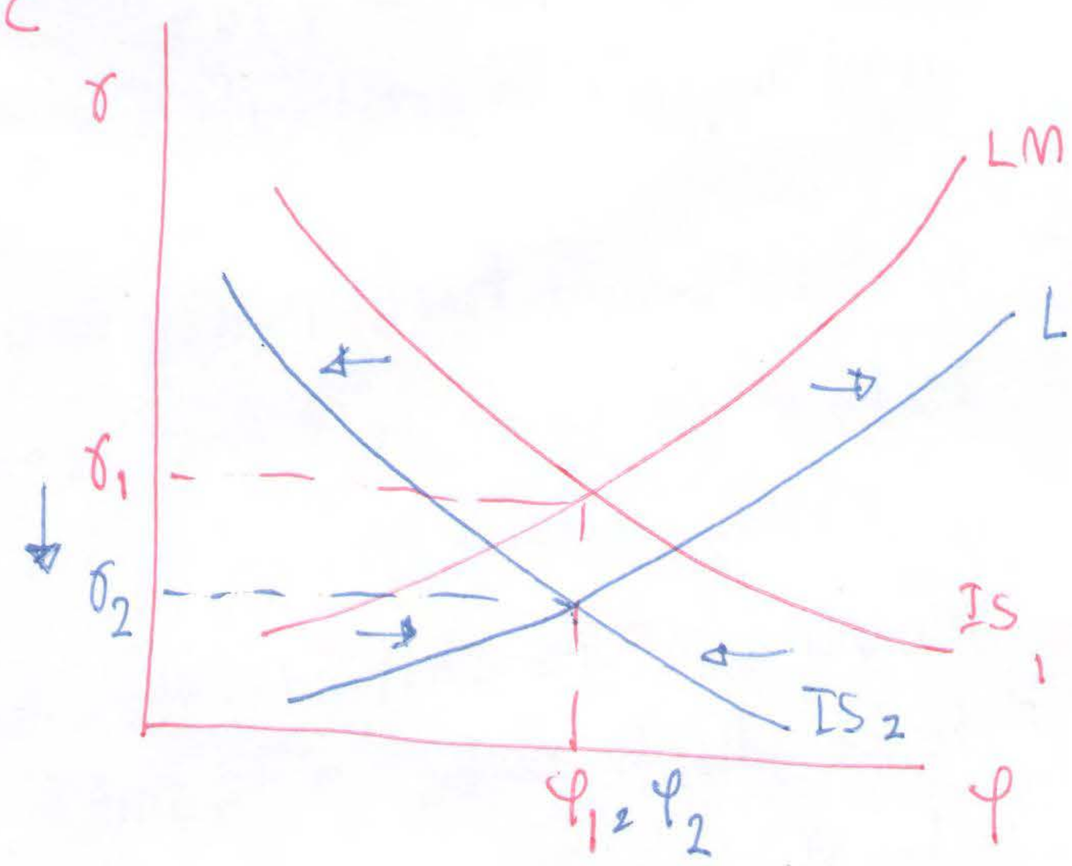


Expansion. fisc. policy

IS shift right (due to $T \downarrow$)

both r & Y increase but there is a crowding out effect.

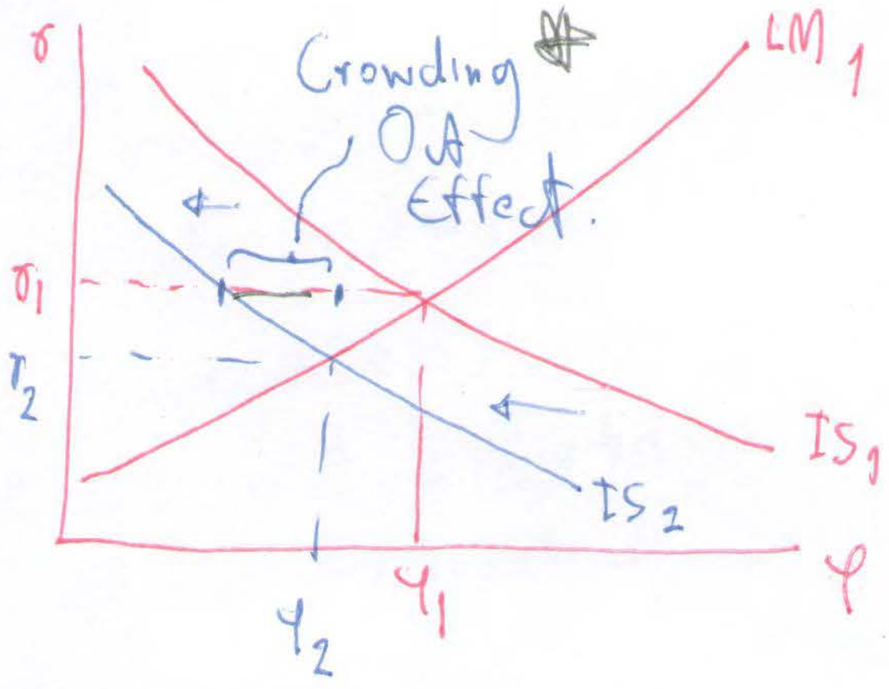
5c



Contract. fiscal Policy
&
Expansionary Monet Policy

- IS shift left (due to $T \uparrow$)
- LM shift right (due to $M_S \uparrow$)
- r decreases, but change in Y is ambigvors

5d



reduction in C

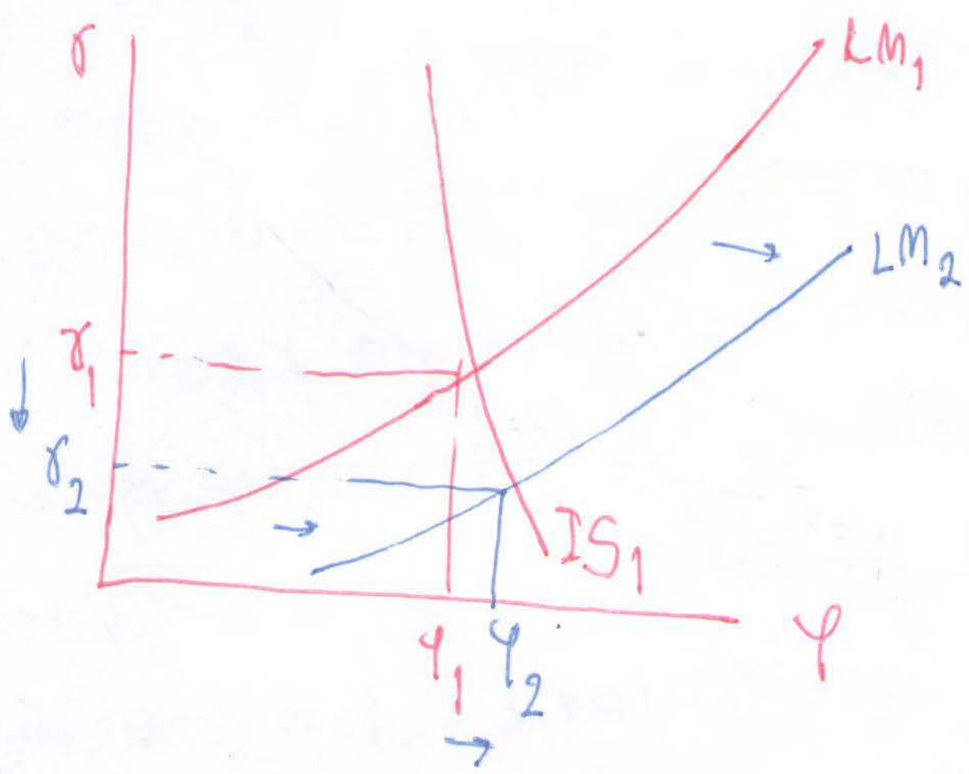
the change happens to the constant term → shifting consumption function

- IS shift to the left.

- Both r and Y decrease

* Bc there is a crowding out effect. offsetting initial change

5e



Expansionary Monet. Policy

Bc IS is steep * due to I having low sensitivity to r

→ LM shift right

Bc because IS is steep
The decline in r is large
while the rise in Y is small

Monetary policy is not effective

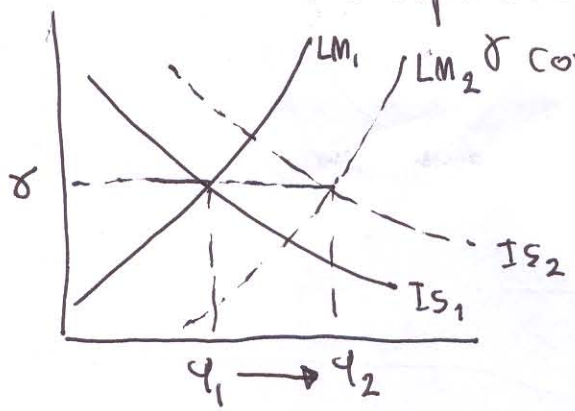
Q6) — Fed keep the interest rate constant.

a) Investment increases. → Y↑ → Nd↑

fed needs to also expand Ms to keep r constant.

Use IS-LM → rise in I → IS shift right

feb expand Ms to keep r constant → LM shift right.



→ with Y↑

C↑

∴ initial rise in I means S will also rise.

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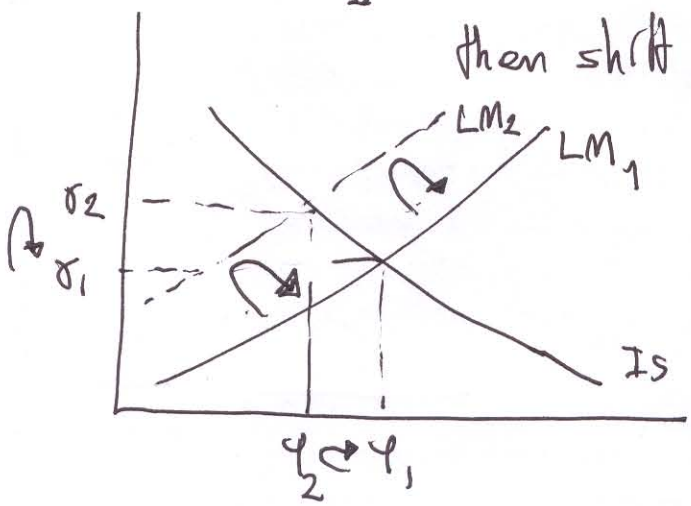
b) Money Supply ↓ → r↑

fed needs to expand Ms →

Use IS-LM

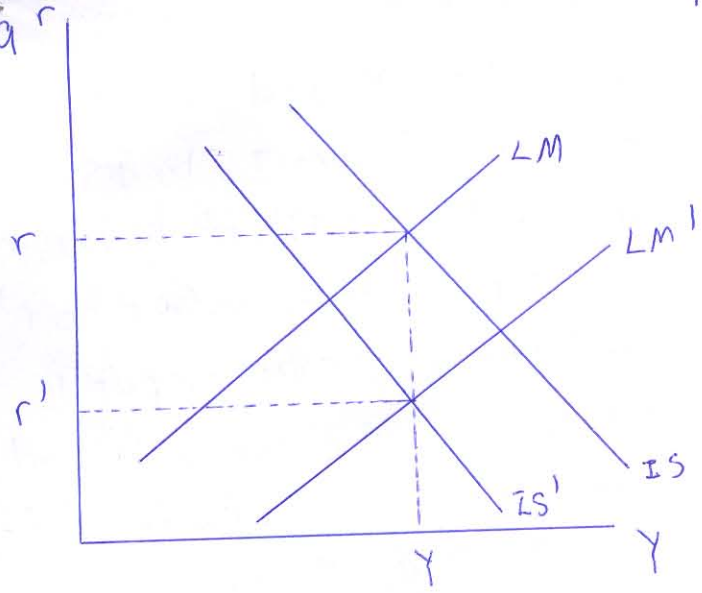
LM shift to the left

then shift back to the original position



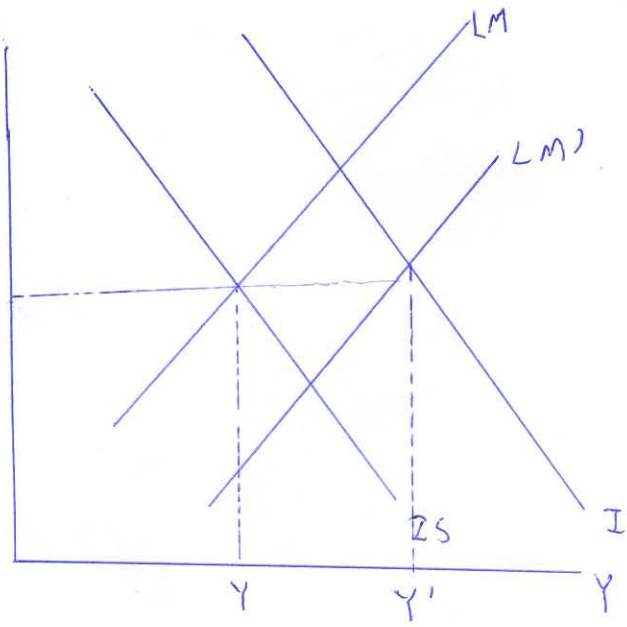
No change in Y

11a



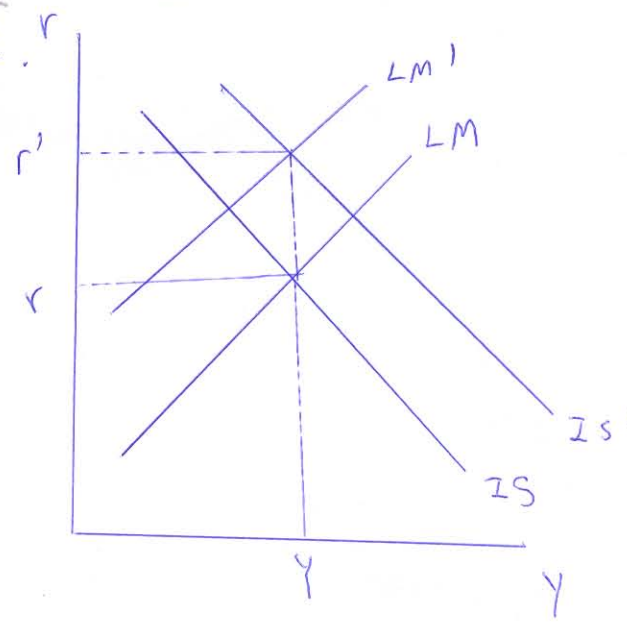
The policy mix that would result in this situation is contractionary fiscal policy and ~~expand~~ expansionary monetary policy. From the policy mix It will cause LM to shift to the right from LM to LM' and Is to shift to the left from Is to Is', resulting in falling interest rate and the change in aggregate output is indeterminate depending on relative magnitude shift of Is and LM.

11b



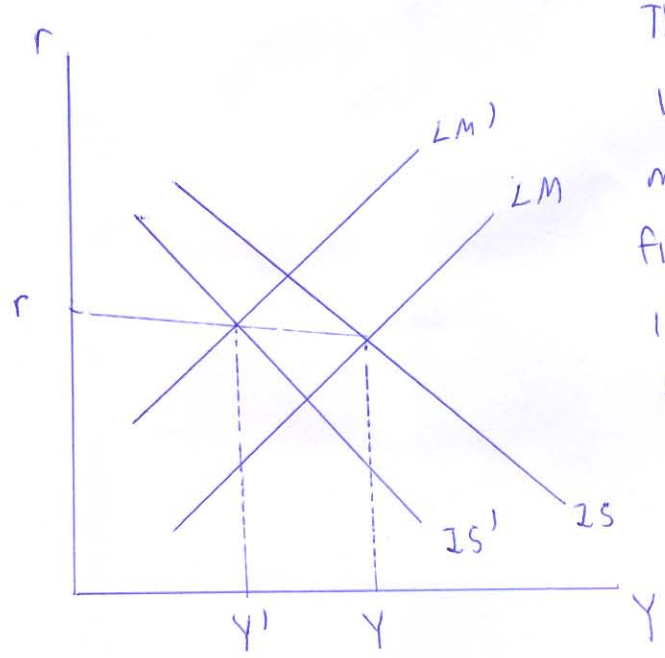
The policy mix that would result in this situation is expansionary monetary policy and expansionary fiscal policy. From the policy mix It will cause LM to shift to the right from LM to LM' and Is to shift to the right from Is to Is', resulting in increasing output and interest rate change is indeterminate depending on relative magnitude shift of Is and LM

11c.



The policy mix that would result in this situation is contractionary monetary policy and expansionary fiscal policy. From the policy mix it will cause LM to shift to the left from LM to LM' and Is to shift to the right from IS to IS', resulting in rising interest rate and the change in aggregate output is indeterminate depending on relative magnitude shift of IS and LM.

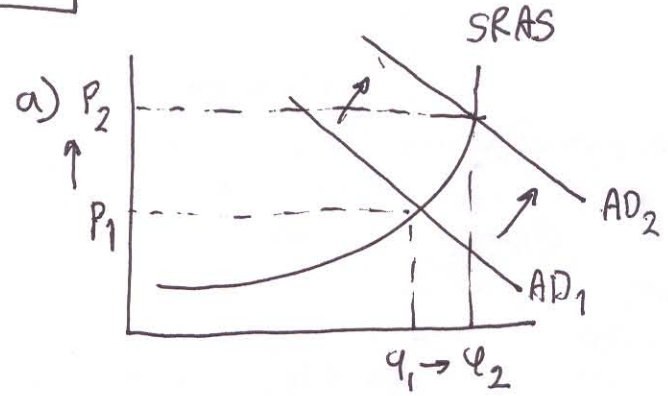
11d



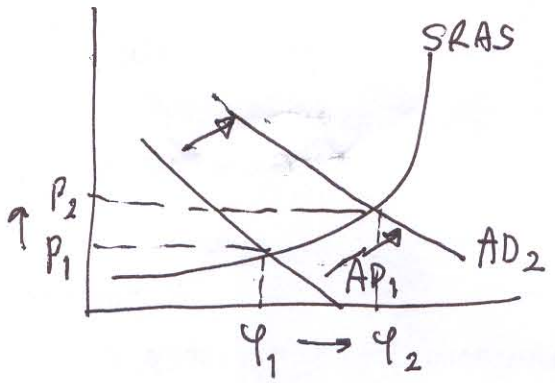
The policy mix that would result in this situation is contrationary monetary policy and contractionary fiscal policy. From the policy mix it will cause LM to shift to the left from LM to LM' and Is to shift to the left from IS to IS', resulting in falling in aggregate output and change in interest rate is indetermine depending on relative magnitude shift of Is and LM.

HW. Ch 13

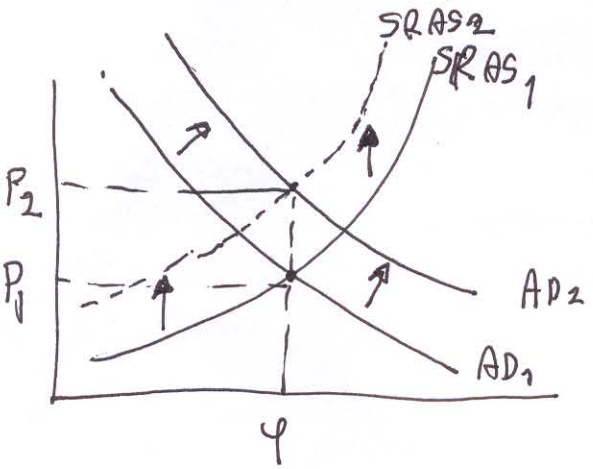
Q3

a) 

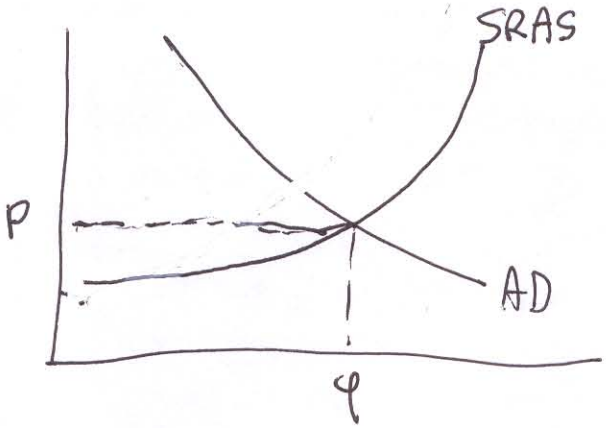
large ↑ in P
small ↑ in Q

b) 

large ↑ in Q
small ↑ in P

c) 

large ↑ in P
Q may fall, but less than if fed did not expand Ms

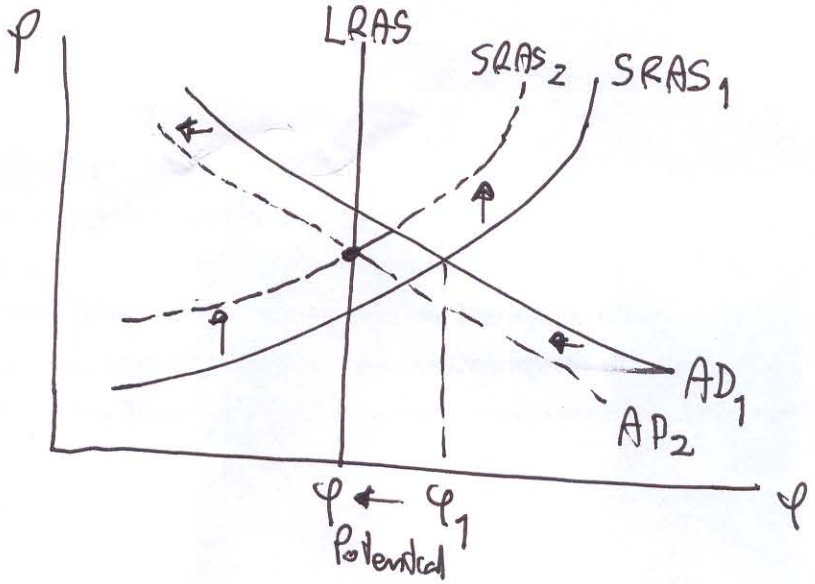
d) 

nothing change.

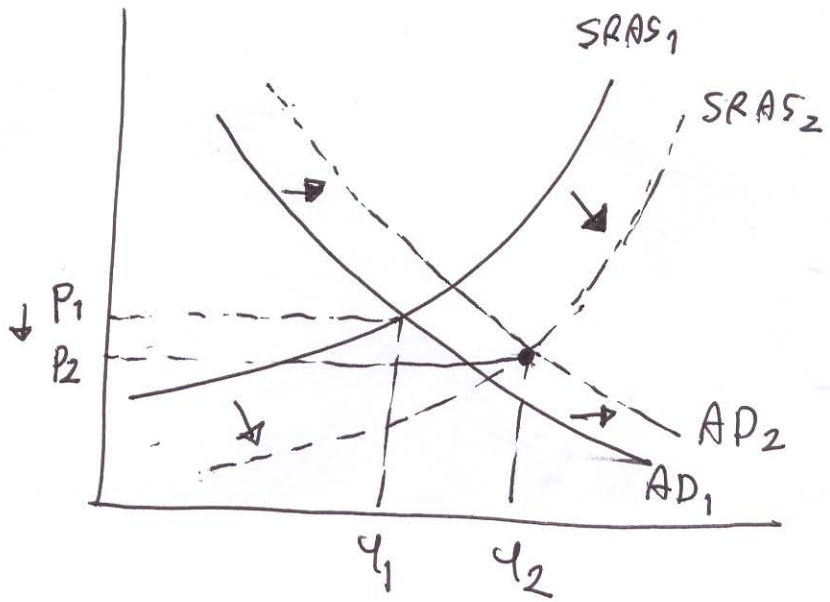
Q4

a) AD + SRAS cut at Y above Y Potential

AS starting to shift up due to the rise in price
This is added by fed late action to shift AD to the left, until Y is at Y potential.

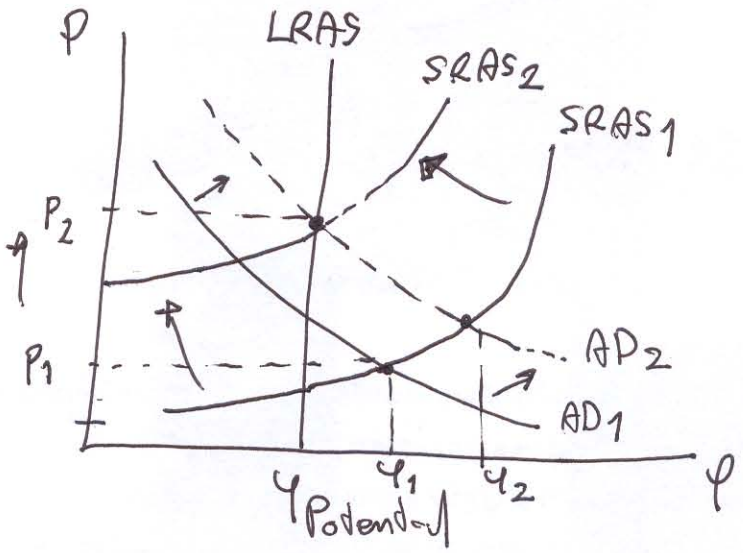


b) SRAS shift down. AD shift to the right, but not enough to prevent the price from falling

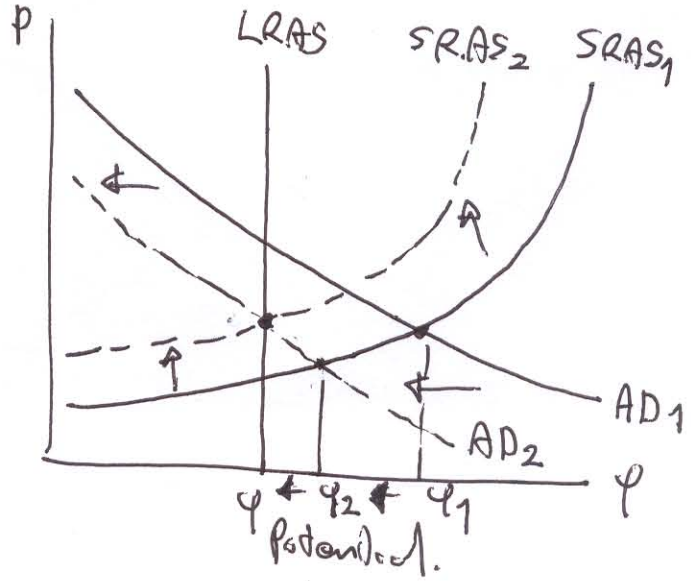


06

a) SRAS = AD already intersect to the right of $Y_{Potential}$.
Increase in MS will cause AD to shift to the right.
In the L-R, ~~the~~ price will rise to adjust the economy back at $Y_{Potential}$.



b) AD will shift to the left. If the shift is not enough, then in the L-R, ~~the~~ price will rise causing ~~the~~ SRAS to shift up and taking Y back to $Y_{Potential}$



c) The rise in oil-price means SRAS shift up.
feb-expansion of money supply cause AD to shift to the right.