# Quiz EE212

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

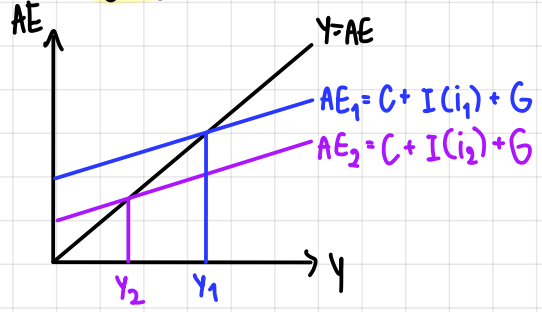
**Submission time: 15 minutes**

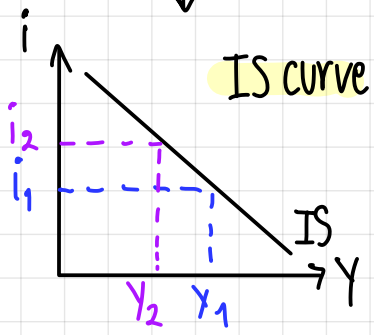
**Latest submission by 20.15**

**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) G&S Market



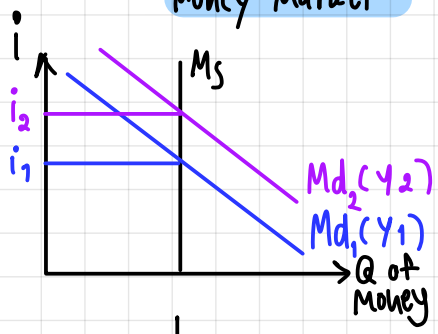




In this case $i_2 > i_1$, when interest rate (i) increase, The investment (I) decrease. Therefore, it also affects the AE to decreases → output (Y) decreases.

The IS curve represents the 'negative relationship' of i and Y since $i\uparrow \rightarrow I\downarrow \rightarrow AE\downarrow \rightarrow Y\downarrow$

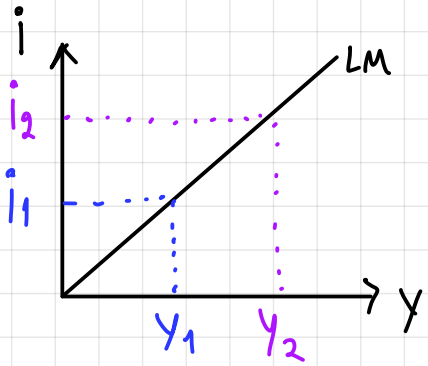
2)

Money Market




In this case income (Y) increase from $Y_1 \rightarrow Y_2$, When income increase, Money demand (Md) also increases (transaction demand etc.) people want to hold more cash. Therefore, people sell the bonds to get money. Bank issuers will increase i to Make the money market in equilibrium.

LM Curve




The LM Curve represents the 'positive relationship' between i and Y

$Y\uparrow$ $Md\uparrow$ } so Md cancle out → Md = Ms
$i\uparrow$ $Md\downarrow$ }

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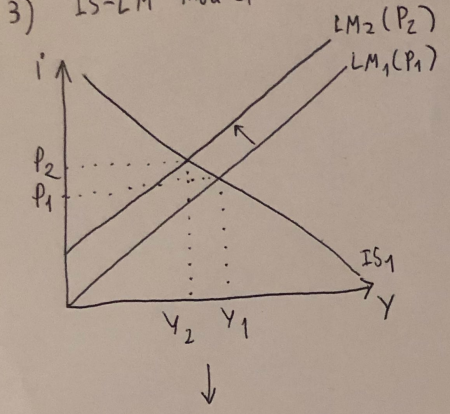
3) IS-LM model




Supposed in MM: P↑ → $\frac{M}{P}$↓ → i↑

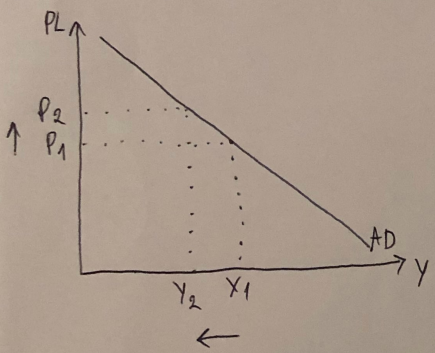
So, LM curve shift to the left

in GM: i↑ → I↓ → AE↓ → Y↓

([redacted] movement along IS curve)

↓

AD curve.




AD curve represent 'negative relationship' between P and Y

P↑ Y↓

P↓ Y↑

* ขอแผดสปัญหาเลยต้องทำลง a4 กะทัดนันค่ะ *

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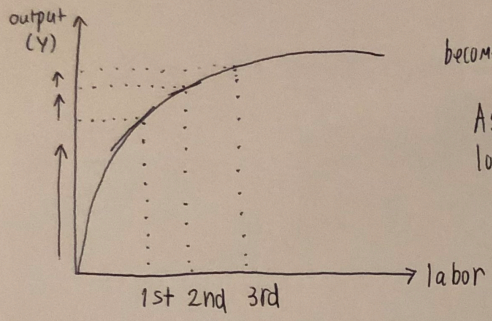
## 4) Production function

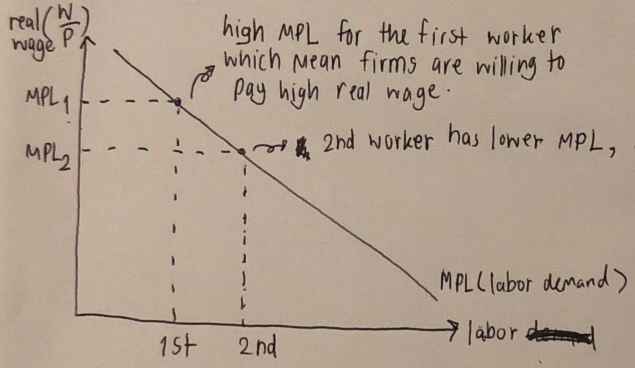



become flatter = less MPL

NOTE $MPL = \frac{\Delta \text{output}}{\Delta \text{labor}}$ = slope of production function.

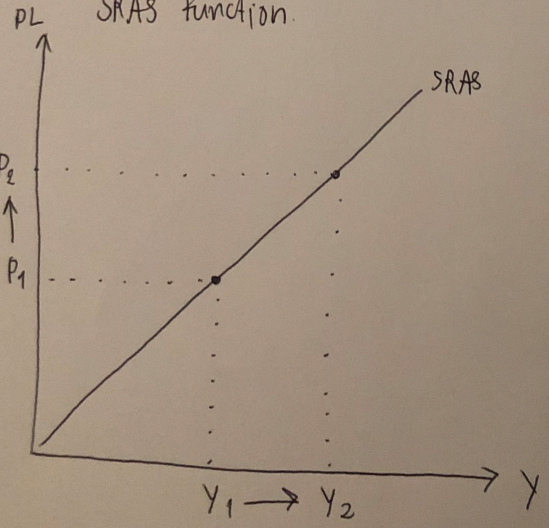
As the worker increase, lower extra output produced.

## Labor demand




Therefore, in SRAS $\bar{w}$ is fixed

## SRAS function




In this case P↑

when P↑ → $\frac{\bar{w}}{P}$↓ → hire more L

↓

produce more Y↑

∴ P↑ → real wage↓ → L↑ → Y↑.

SRAS represent a positive relationship between P and Y