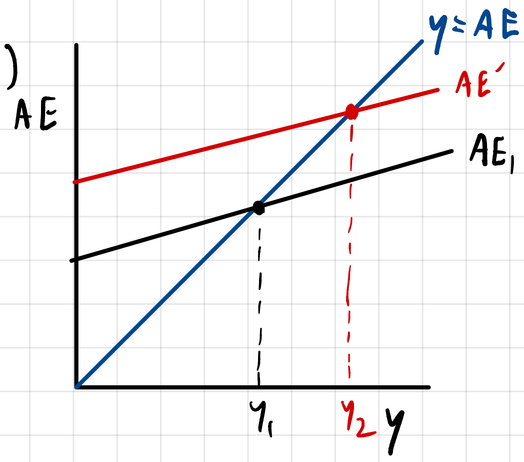
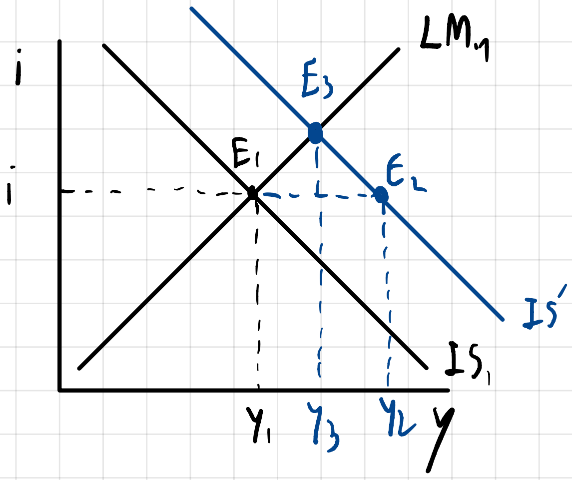
Question 1

Draw 3 diagrams (Keynesian Cross, Money Market, IS-LM) to **show and briefly explain** the followings:

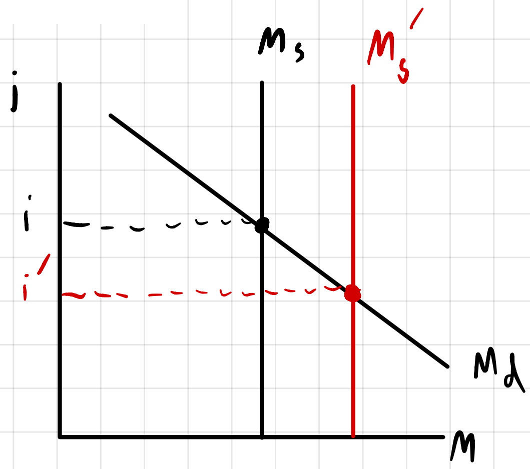
a. The crowding-out effect when the government increases its spending
b. Another policy that can be used to avoid the crowding-out effect

a.)



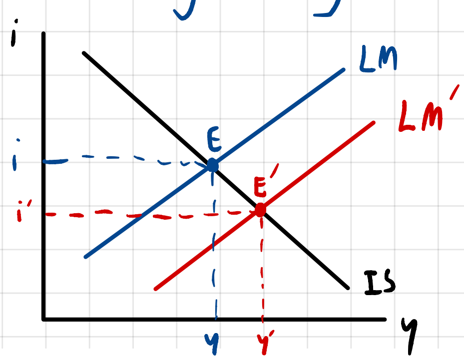


MM



goverment spending increase, so I will use Fiscal policy of IS-LM model to answer question 1.a. The LM curve will still remain and the IS will shift to the right. And for money market when government spending is increase it will lead to people spending more or investing more and interest rate will decrease.

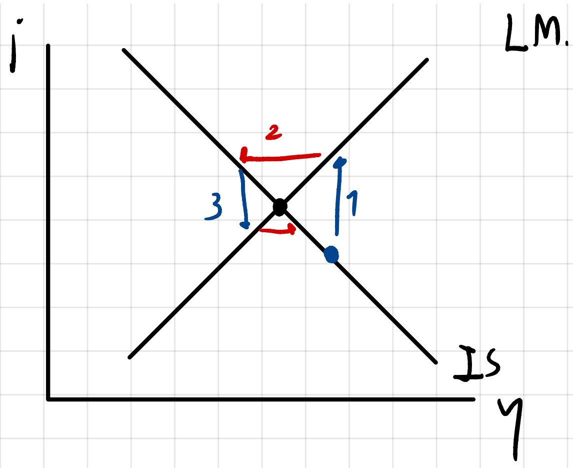
b) Monetary Policy : Control money supply by central bank to control interest rate.



Question 2

Draw the IS-LM diagram. **Pick ANY point on either the IS curve or the LM curve** (NOT the general equilibrium point). ย้ำว่าเลือกจุดไหนก็ได้ที่อยู่บนเส้น IS **หรือ** LM **ที่ไม่ใช่จุดตัดตรงกลางของสองกราฟ**

Use the diagram that you draw to briefly explain how the two markets at **your current point** will adjust towards the general equilibrium.



1. MM : $y\uparrow \rightarrow Md\uparrow \rightarrow i\uparrow$
2. G&S Market : $i\uparrow \rightarrow I\downarrow \rightarrow y\downarrow$
3. MM : $y\downarrow \rightarrow Md\downarrow \rightarrow i\downarrow$
4. G&S M : $i\downarrow \rightarrow I\uparrow \rightarrow Y\uparrow$