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Quiz EE212

Time allowed: 1 hour from 19.00 – 20.00

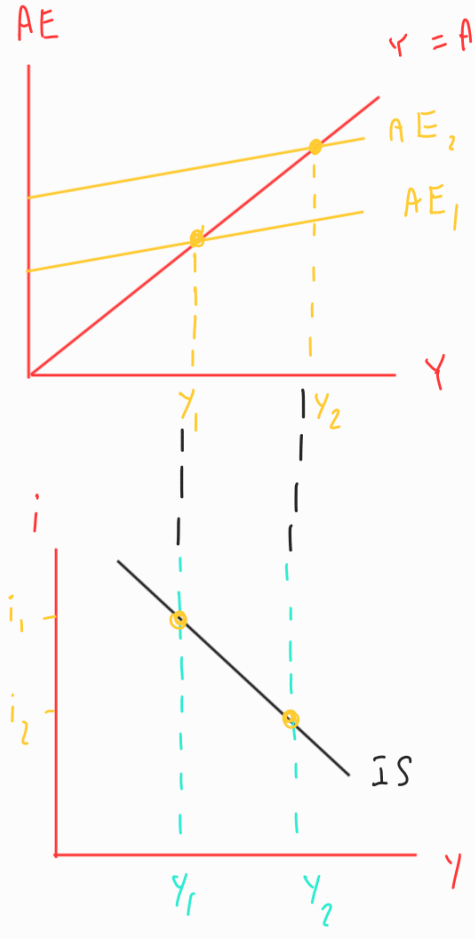
Submission time: 15 minutes

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.



IS curve: shows a negative relationship between i Y in the G&S market.

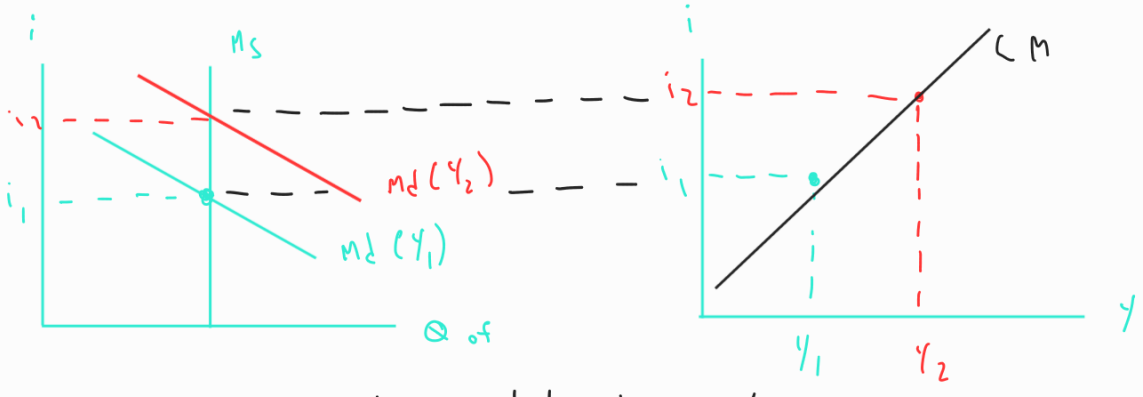
* The IS curve is a locus of points. Each point is in equilibrium in Keynesian Cross at each level of i.

IS relation:

$i \downarrow \rightarrow I \uparrow \rightarrow AE \uparrow \rightarrow Y \uparrow$

(negative relationship b/w i and Y)

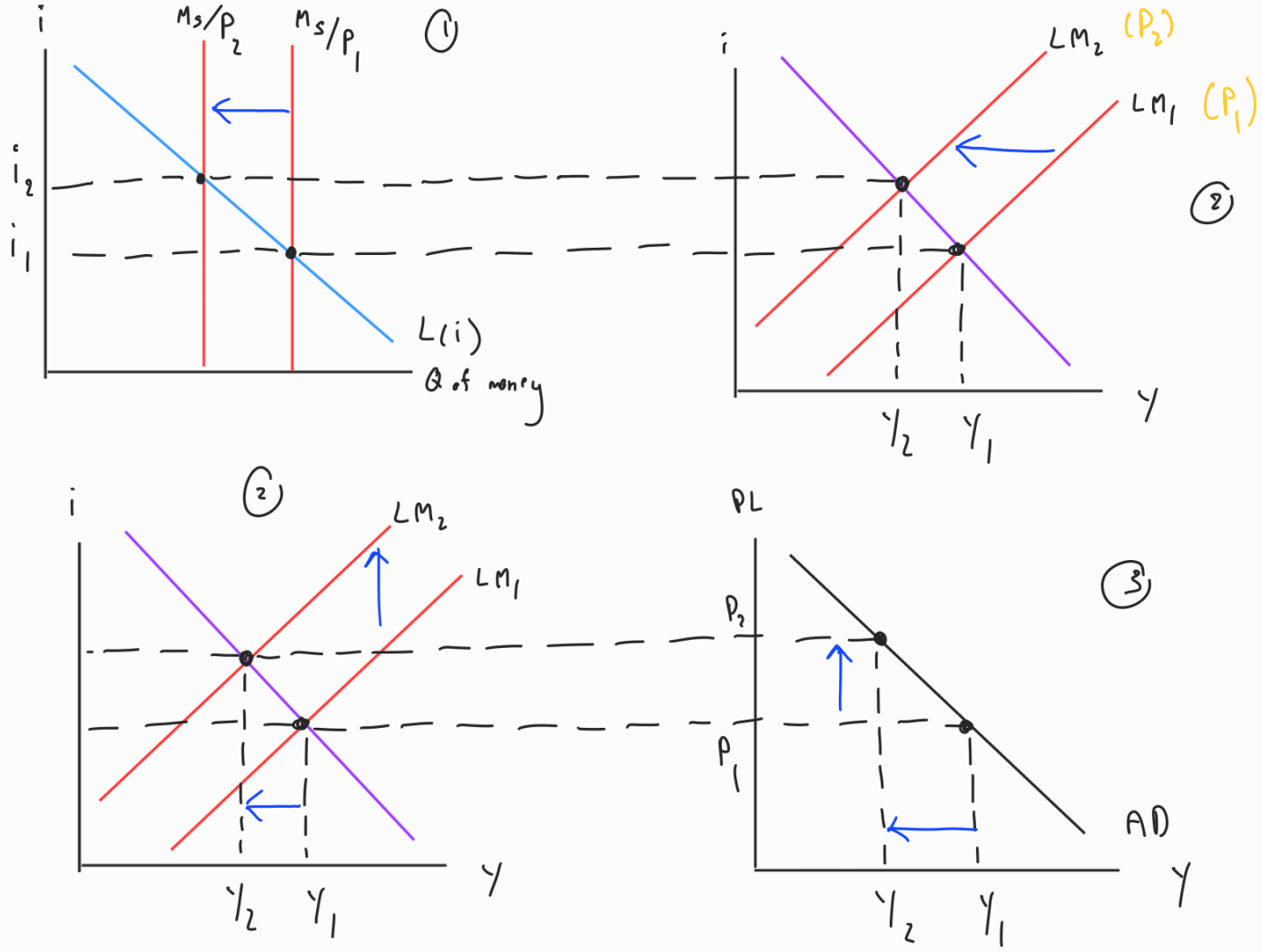
2.



LM curve: shows a positive relationship between i and Y in the money market. LM curve is a locus of point, constitute an equilibrium in the money market.

LM relation: $Y \uparrow \rightarrow Md \uparrow$, $i \uparrow \rightarrow Md \downarrow$ } $Md = Ms$

3.



The diagram explain how the AD is derived from IS-LM model

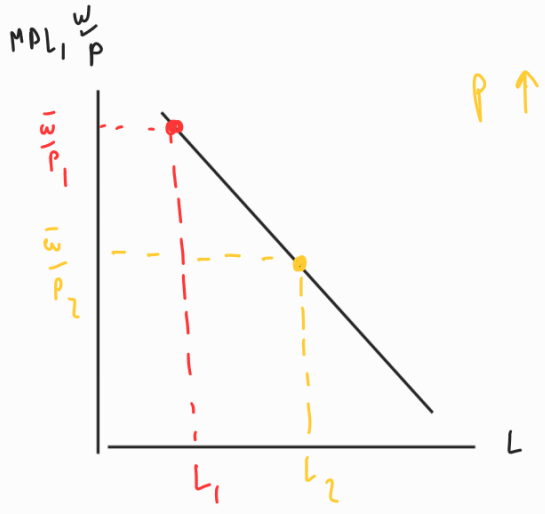
By this example we use contraction monetary policy to explain.

When P↑

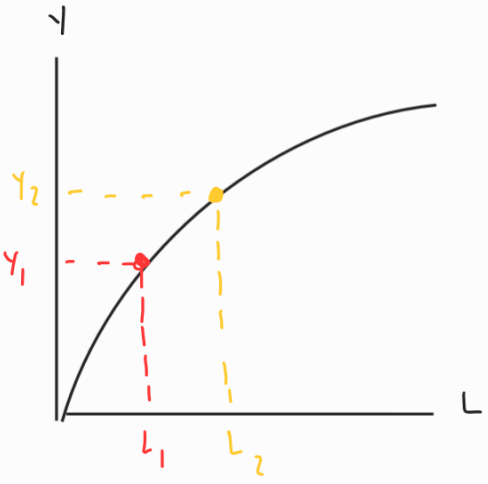
- money market: P ↑ → $\frac{M}{P}$ ↓ → i ↑
- g & S market: i ↑ → I ↓ → AE ↓ → Y ↓

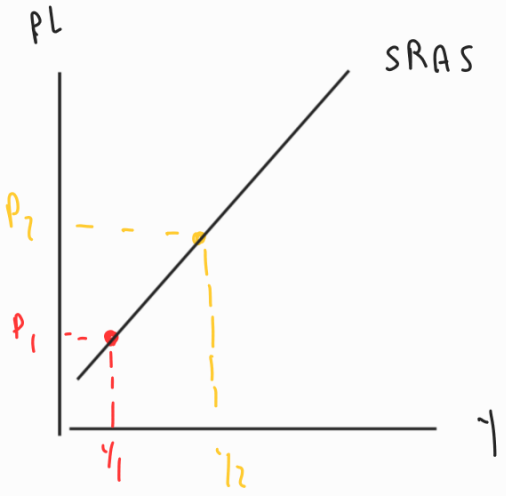
∴ AD relationship: P ∝ $\frac{1}{Y}$

4. Labor demand



Production function





SRAS curve

Deriving SRAS from Labor demand and production function

- When P↑ → $\frac{W}{P}$ ↓ → L ↑ → Y ↑

1.) Price go up

2) Real wage falls

3) Firm hire more labor

4) Increase output

∴ SRAS show positive relationship between PL and Y