

## Final Exam Quiz

**THOSE WHO COPY YOUR FRIENDS OR LET YOUR FRIENDS COPY YOU WILL BE AWARDED ZERO.**

ปด ผมจดไว้แล้วนะครับว่าตอนมิตเทอมใครลอกของใคร ครั้งนี้ขอเตือนเลยว่าผมไม่ยอมแล้วนะครับ

ผมต้องลงโทษ ไม่งั้นต่อไปคงไม่มีใครอยากซื้อสตั๊ด

Submission Guide: You can upload up to 3 files on Moodle. If the whole file is too large, you should break it down and upload 3 files, each containing 1 question.

### Question 1

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

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

### 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.

### Question 3

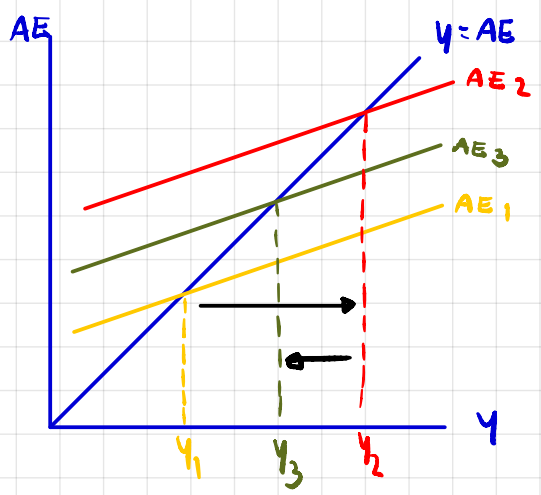
Assume that the liquidity preference function (real money demand) is given by the  $L(Y, i) = L_0 + L_Y Y - L_i i$ .

Note that  $L_0$  is **autonomous money demand**, while other terms are the same as in the lecture slides.

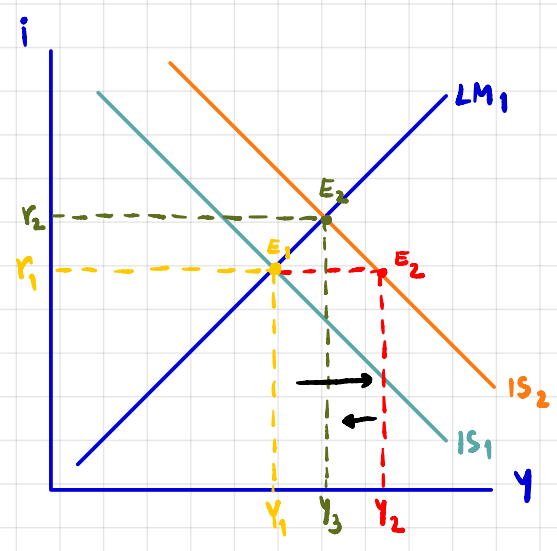
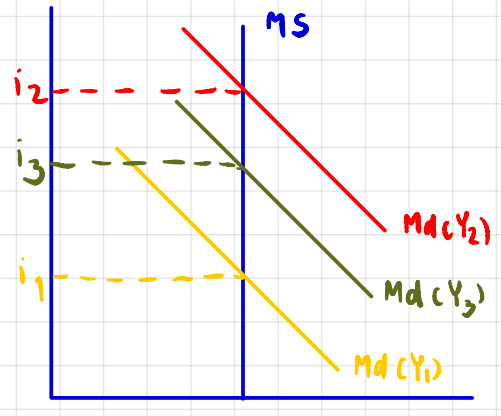
**Now suppose that  $L_0$  falls.**

- Give ONE reason why this may happen.
- Show and briefly explain the effect of the fall in  $L_0$  on the 4 diagrams (Keynesian Cross, Money Market, IS-LM, AD).

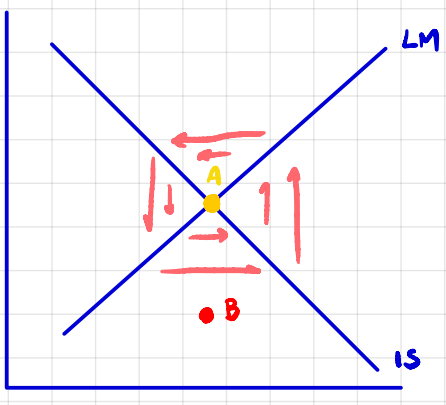
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first in Goods Market, when the government spend the money, it will increase the aggregate expendor . So, that will increase the output. Therefore, the output will change from  $Y_1$  to  $Y_2$ . When the output increase in the Good market it will increase the  $Y$  in money market due to the people are richer and it also increase the money demand and the interest rate from  $Md(Y_1) \rightarrow Md(Y_2)$  and  $i_1 \rightarrow i_2$ . Then that will effect to the Good market again by when the interest rate increase, the investment and aggregate expenditure will fall and the output will fall. So, this will have the crowding out effect. However, to the policy that can be used to avoid the crowding-out effect is the government can vs c the tax reduction.



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From the graph, at point B is not in the general equilibrium point which is point A. So, to adjust point B to the general equilibrium, we have to produce more in good market. So, when we produce more in Good market, the interest rate will increase in Money market. When  $i$  goes up the investment will fall and this will effect to the output will fall. Then this will effect to the money market that when output fall the money demand will fall and the interest rate will fall too. Therefore, it will be the circle dynamic until it adjust to the general equilibrium of a market.

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a.)  $L_0$  will fall because the price is fall. Therefore, people don't need to hold much money.

