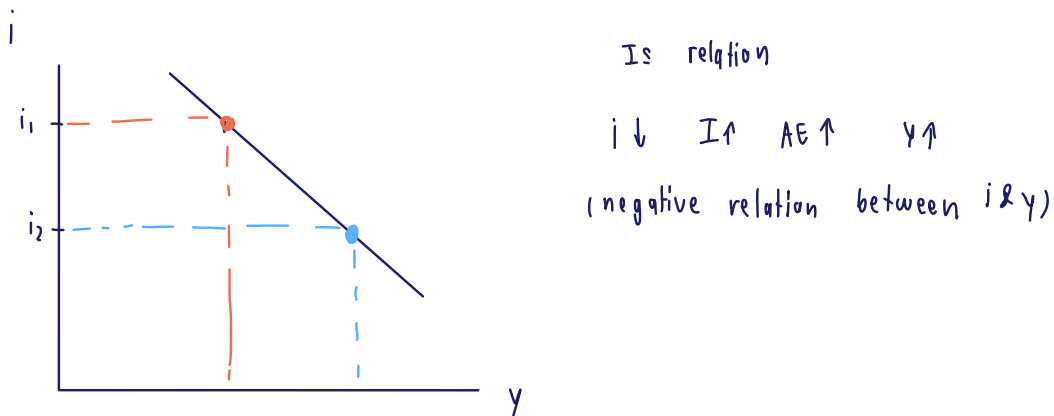
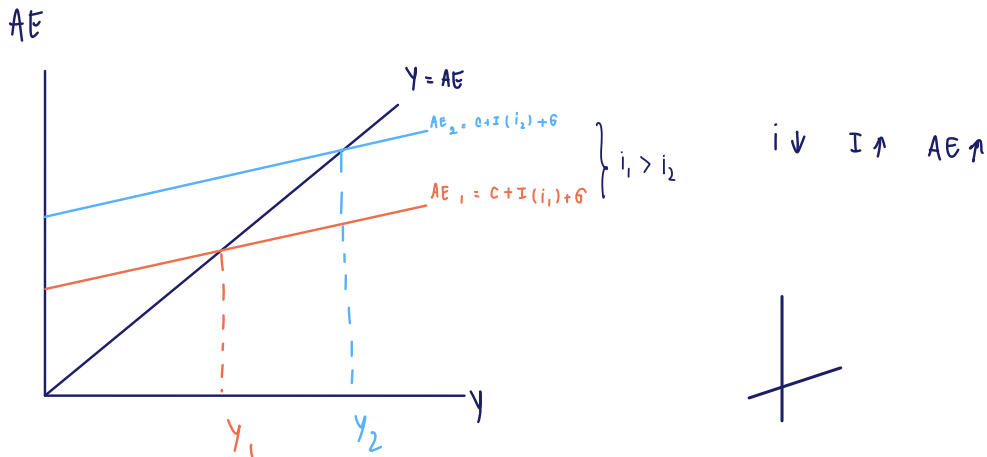


1. Use TWO relevant diagrams to explain how the IS curve is derived from the goods market.  $\rightarrow C + I + G$

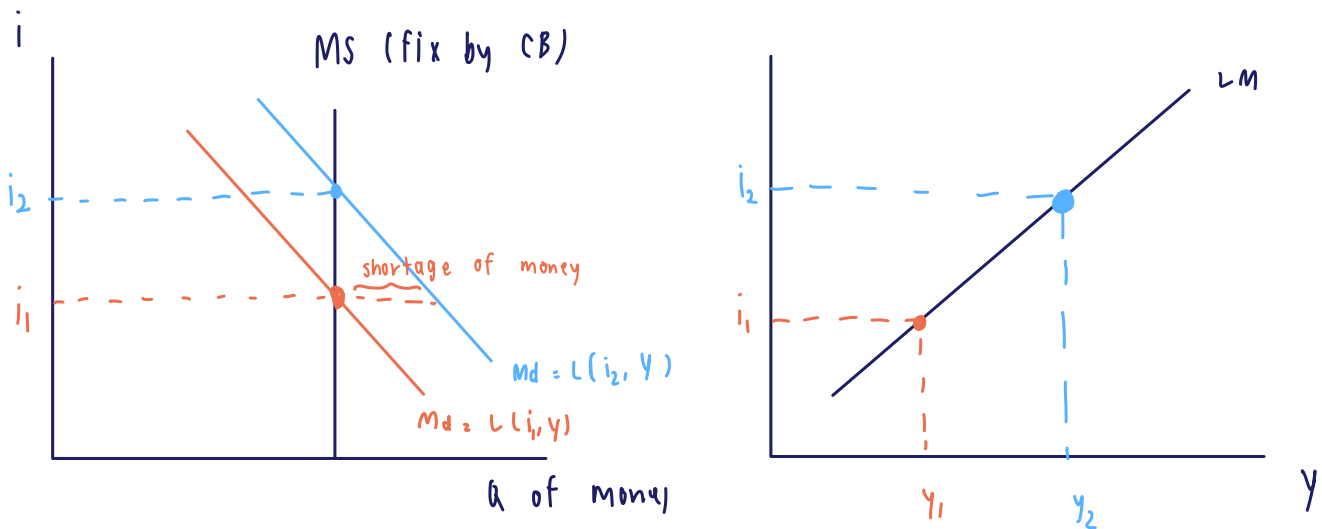


The goods market diagram shows that the interest rate of  $AE_1$  is different to the interest rate of  $AE_2$ , which interest rates of  $AE_1$  are greater than  $AE_2$ .

IS curve  $i \downarrow \quad I \uparrow \quad AE \uparrow \quad Y \uparrow$

When goods market is in equilibrium aggregate demand equal to income and IS curve relates different equilibrium level of national income with various rate of interest ( $i$ ).

2. Use TWO relevant diagrams to explain how the LM curve is derived from the money market.

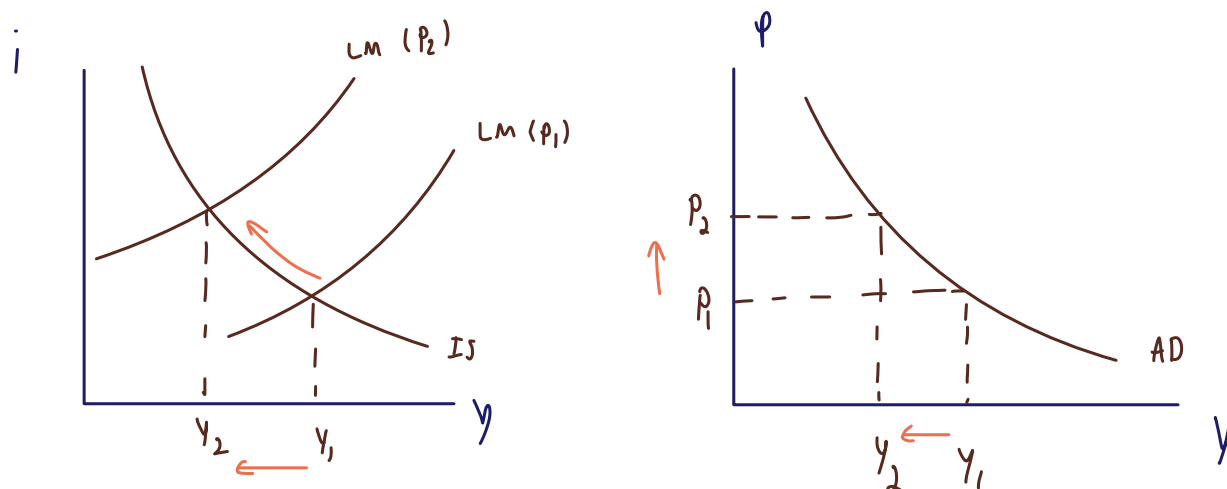


LM curve must be relate to money market  
condition  $M_d = M_s$  (the equilibrium)

$i \uparrow \Rightarrow Y \downarrow$

From the diagram above when  $i$  increase,  $m_d$  will decrease and when  $Y$  increase,  $m_d$  will increase this two change will cancel out ( $M_d = M_s$ )

3. Use relevant diagrams to explain how the AD curve is derived from the IS-LM model.



IS curve is not directly related to  $P$  but LM curve is directly related to  $P$ , knowing from  $\frac{M}{P} = L(i, y)$

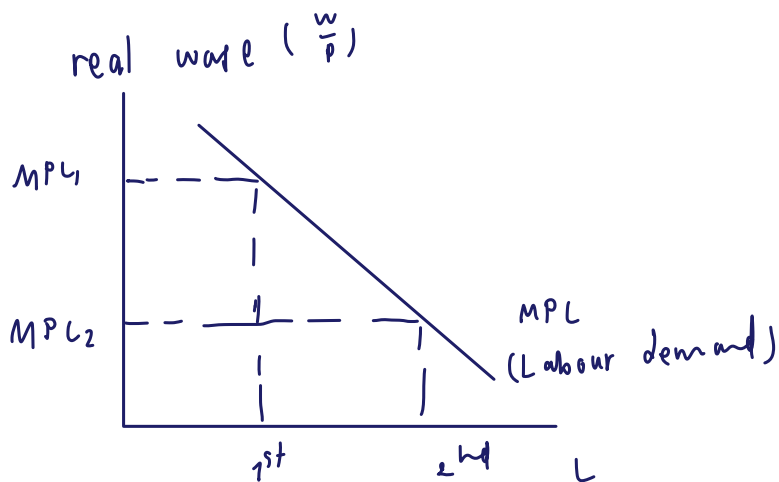
$P \uparrow \Rightarrow$  Real Money Supply  $\downarrow$

small Real Ms  $\Rightarrow i \uparrow$

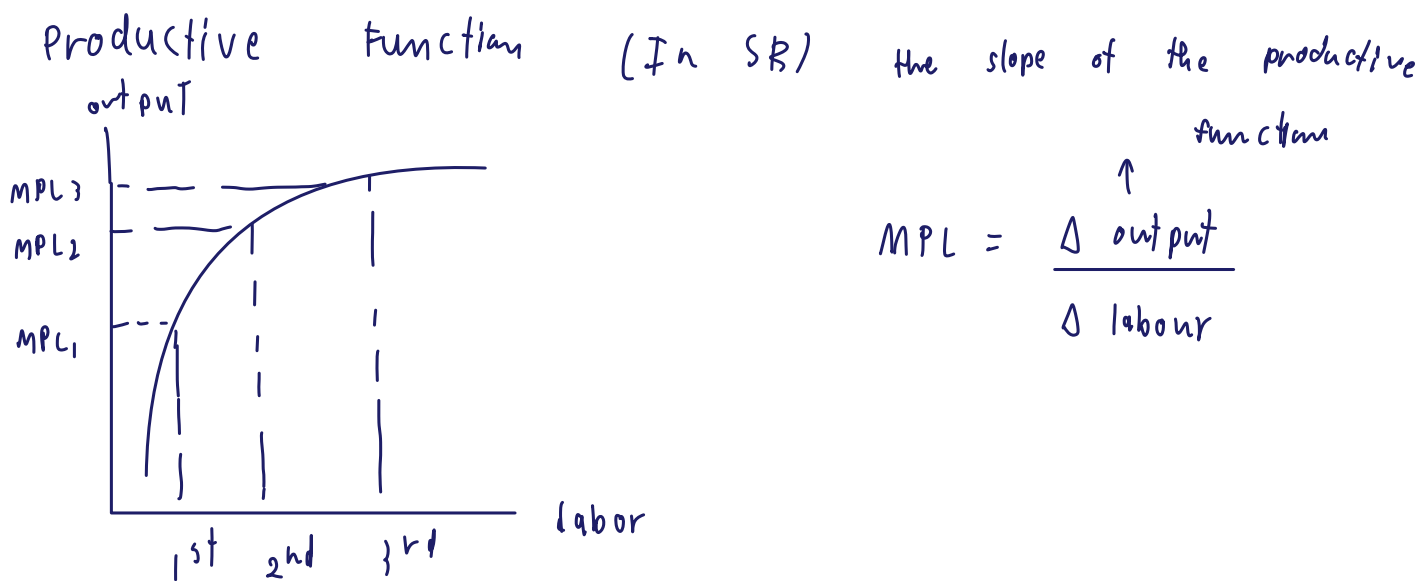
High  $i \Rightarrow$  lower  $I$

lower  $I \Rightarrow Y \downarrow \quad \therefore P \uparrow \Rightarrow Y \downarrow$

4. Use relevant diagrams to explain how the SRAS curve is derived from the labor demand and the production function.



1st high MPL firms are willing to pay high real wage  
 2nd low MPL firms will pay less and also less productive.



(In SR) the slope of the productive function

$$MPL = \frac{\Delta \text{output}}{\Delta \text{labour}}$$

$P \uparrow$     $\frac{w}{p} \downarrow$    labor demand  $\uparrow$     $L \uparrow$     $Y \uparrow$