EE212 Principles of Macroeconomics, 2/2016 (Sec. 046401)

Problem Sets 5 :

Chapter 6. ISLM Model and Chapter 7 AD-AS Model

Please submit at the BE office, 5th floor department of Economics building.

Deadline of submission : May 4, 2017, before 15.00 hrs. If you do not have class on May 4, you may submit before that date.

Late submission will not be accepted.

* Note that when there are many parts in one question, please **indicate clearly the part you are answering**. For example, **(a)** Answer. — **(b)** Answer. —. **Apply this way to exam as well**.

* **If the space provided is not enough, you may attach a separate sheet.**

1. In case of inflationary economy, should government increase or decrease personal income tax rate to solve the problem? Use IS-LM model to explain your answer. Clearly demonstrate crowding-out effect situation and adjustment process in each market in the economy (supplement necessary diagrams to illustrate the explanation).

2. In short run

   (a) If there is a big drought in agricultural production area in the northeastern part of Thailand, holding other things being equal what would be the effects on the economy overall price and national income based on the AD-AS model analysis?

   (b) If central bank of the country wants to restore the original price level (before the big drought), explain possible monetary policy tools (four measures) that can stabilize the economy in terms of price level (diagram is not necessary).

   (c) Based on monetary policy tools chosen in part (b), what would be the effects of the policy (on the economy price level, national income and interest rate). Explain and provide necessary diagrams [regarding, relevant market(s), IS-LM Model and AD-AS Model] to supplement your explanation.