

Final Exam Quiz

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

ปล 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.

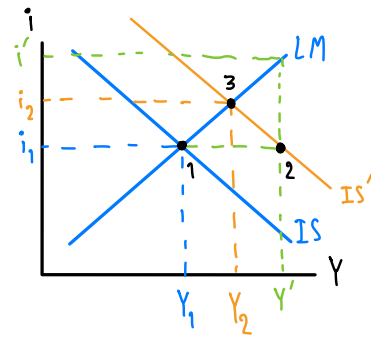
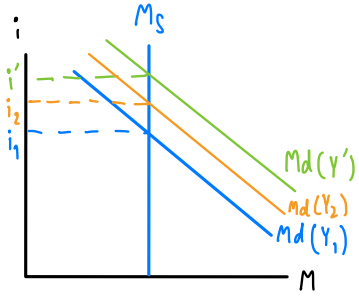
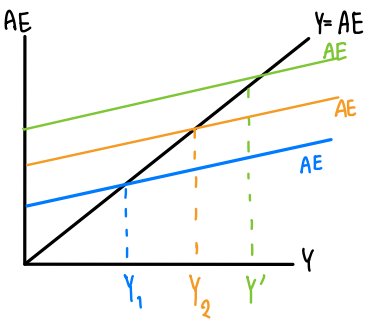
- Give ONE reason why this may happen.
- Show and briefly explain the effect of the fall in L_0 on the 4 diagrams (Keynesian Cross, Money Market, IS-LM, AD).

Question 1

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

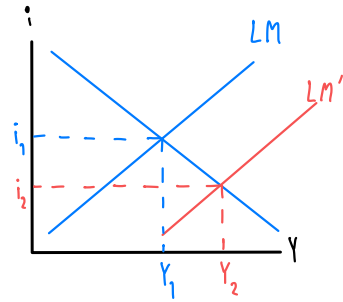
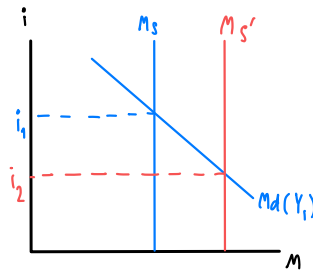
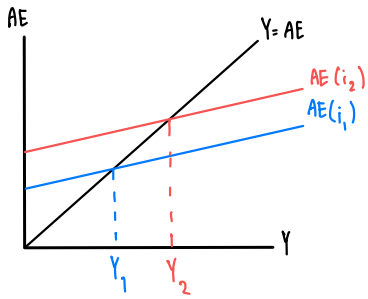
- a. The crowding-out effect when the government increases its spending
- b. Another policy that can be used to avoid the crowding-out effect

(a)



- If the government spending more, demand in economy will rise up. Firm produce more supply at the higher demand ($Y=AE$). This will increase Y in economy.
- When people have more income its mean they have more power to buy goods then it increase money demand. If money demand increase, interest rate will increase too.
- Nevertheless, higher interest rate dissuade investment. Lower investment lead to output fall (Y).
- As a result, new equilibrium has higher output and higher interest rate.

⑥ Ans Expansionary Monetary Expansion



- When Central bank increases money supply, interest rate will get lower

- When interest rate is lower, investment will become higher. It will raise demand in economy. Firm will produce more supply and higher demand ($Y=AE$)

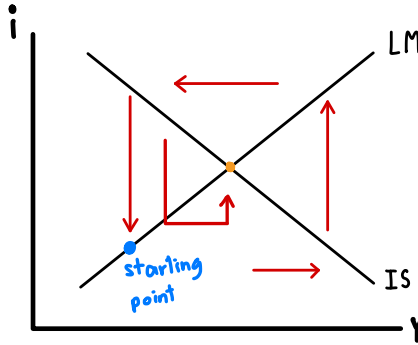
- As a result, new equilibrium has higher output but lower interest

Question 2

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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) GM: $Y < AE \rightarrow Y \uparrow$
- 2) MM: $Y \uparrow \rightarrow M_d \uparrow \rightarrow i \uparrow$
- 3) GM: $i \uparrow \rightarrow I \downarrow \rightarrow Y \downarrow$
- 4) . . .

- From this graph, the starting point spot under IS which mean $Y < AE$. This raises national income (Y). If people have more income, they will use more money to buy goods. This will make money demand (Md) rise up. The rising up of money demand will raises interest rate (i). Higher interest rate make investment decreased. It make income decreased and it will turn into the equilibrium again like loop.

Assume that the liquidity preference function (real money demand) is given by the $L(Y, i) = L_0 + L_1Y - L_2i$.

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).

a) When GDP is decreased, the demand of money will shift down because people want to keep money for spending in dairy which call transactions.

b) L_0 fall \Rightarrow Price \downarrow , money demand \downarrow

