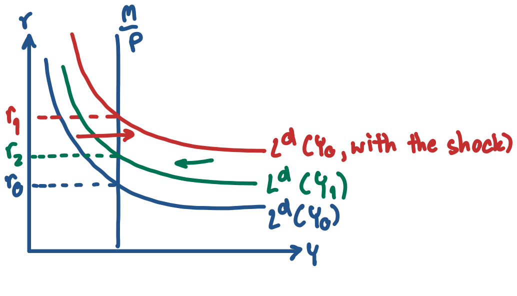


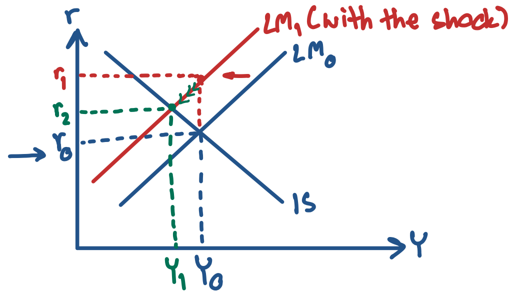


Group10(new)
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a) After the shock, people would like to hold more money. Then, demand for money(Ld) increase for all level of income(Y) ; Ld shift to the right. Therefore, interest rate rise up from r0 to r1. LM shift to the left interest rate increase for all level of Y from r0 to r1. Since, interest rate increase ; then, consumption and investment fall. Then, it lead to the deduction of output(Y). Due to that Y decrease Ld shift to the left, therefore interest rate decrease from r1 to r2. Then the interest rate decrease from r1 to r2 move along the LM curve.

b) Since the lower output and higher interest rate, it implies that investment is lower. Therefore the unemployment rate is higher as well.