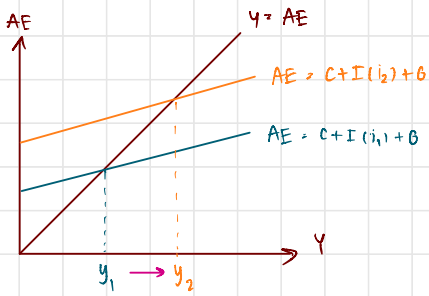
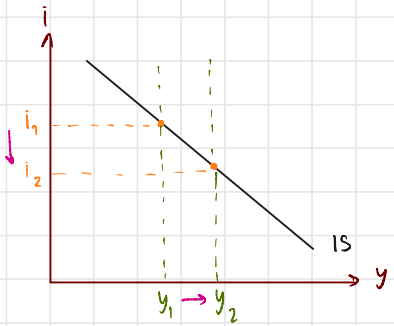
Pitchaya
✻ 6404640838

1. Use TWO relevant diagrams to explain how the IS curve is derived from the goods market.

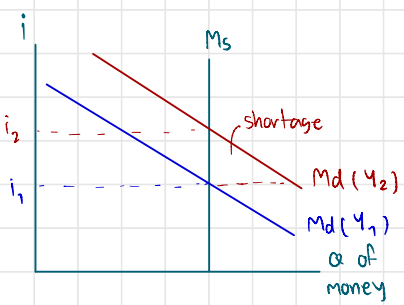


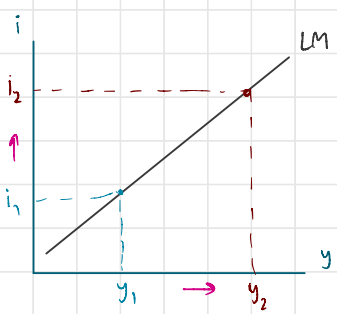


From Y = AE curve, i_1 change to i_2 that cause I ↑ and AE ↑ ($Y_1 \rightarrow Y_2$)

IS relation : negative relationship
∴ i↓ → I ↑ → AE ↑ → Y ↑

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





From Money demand = Money Supply

$L(Y,i) = M/P$

(Y ↑ → Md ↑) → Positive relationship

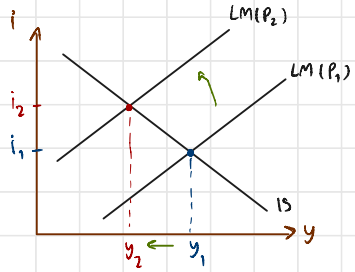
when Money demand increase = people hold more cash / have demand for money that will drive up interest rate to maintain Md equal Ms

Y ↑ → Md ↑ → i ↑ → Md ↓ → [Md = Ms]

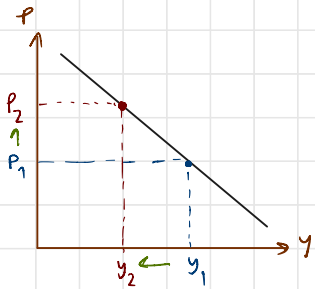
Or

LM relation : Y ↑ → Md ↑ ; i ↑ → Md ↓ } Md = Ms

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



(The IS-LM Model)



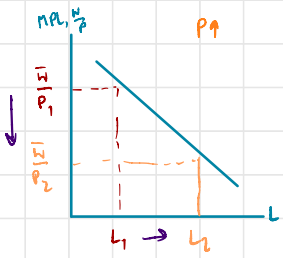
(The Aggregate Demand Curve)

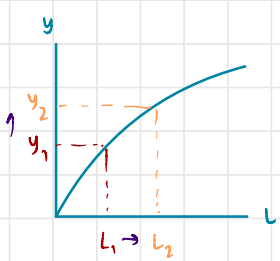
① higher price level (P) shifts the LM curve upward → interest rate ↑ → I ↓ → AE ↓ → Y ↓

② slope of AD show relationship between P, Y

$[P_1 \to P_2] \to [Y_1 \to Y_2]$ downward b/c price level increase, output decrease

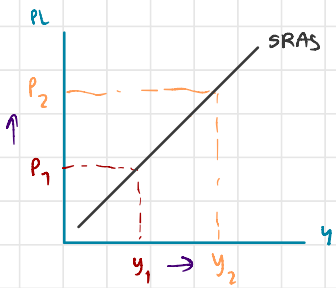
4. Use relevant diagrams to explain how the SRAS curve is derived from the labor demand and the production function.





As Price increase → MPL ↓
inducing firm to hire more labor and increase output

P↑ → $\frac{W}{P}$ ↓ → Labor demand ↑ → L ↑ → Y ↑



So, SRAS show positive relationship P & Y

P↑ → Y↑