<u>**Quiz EE212**</u>

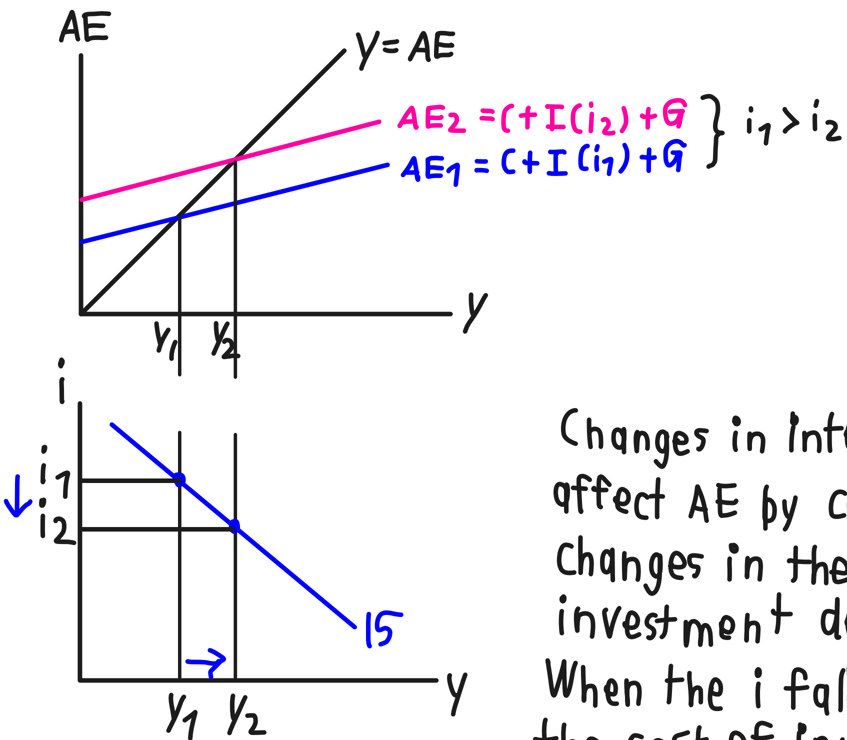
Time allowed: 1 hour from 19.00 – 20.00

Submission time: 15 minutes

Latest submission by 20.15

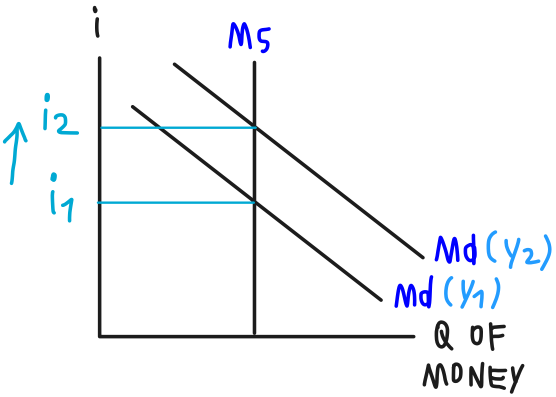
Do not write too much. Brief explanation is sufficient.

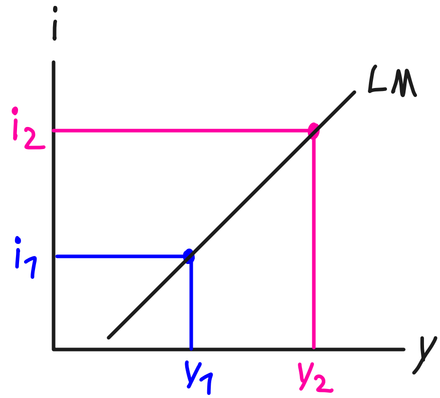
1. Use TWO relevant diagrams to explain how the IS curve is derived from the goods market.



Changes in interest rate affect AE by causing changes in the investment demand. When the i falls, it lowers the cost of investment.

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

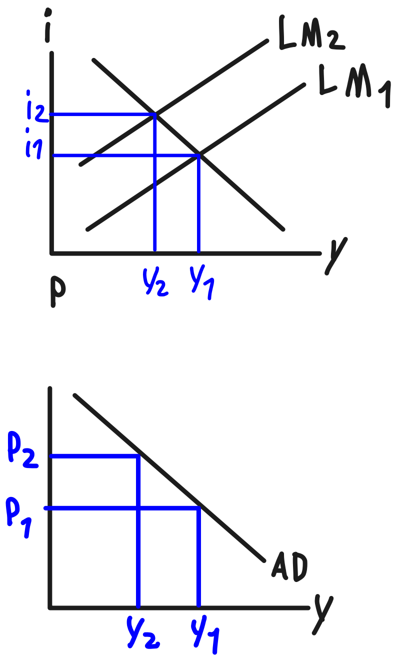




LM RELATION : $\left.\begin{array}{l} y\uparrow \longrightarrow Md\uparrow \\ i\uparrow \longrightarrow Md\downarrow \end{array}\right\} Md = Ms$

Demand for money to hold depends upon transactions motive which is the function of income, according to Keynes. The greater the level of income, the greater the amount of money held. Therefore, the Md curve is higher.

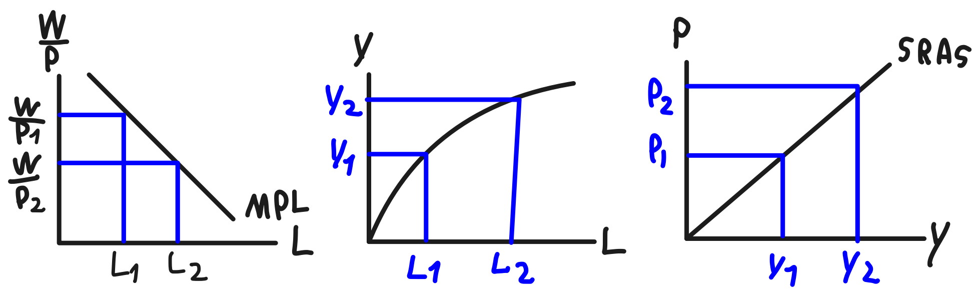
3. Use relevant diagrams to explain how the AD curve is derived from the IS-LM model.



When the price increase, it makes LM shift left which causing interest rate increase. Then, investment falls and affects the AE and Y to fall too.

slope of AD is downward because as price level increases, the output decreases.

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



- sticky wage is short-run causing nominal wage to be sticky due to the labour contract.
- SRAS derived from labor market and production function

P↓ → real wage↓ → from hire more labor → produce more y