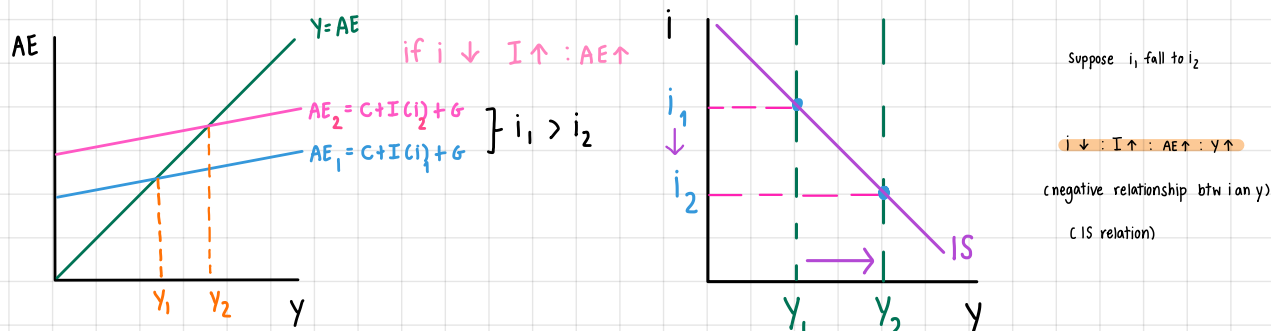


1. Use TWO relevant diagrams to explain how the IS curve is derived from the goods market.



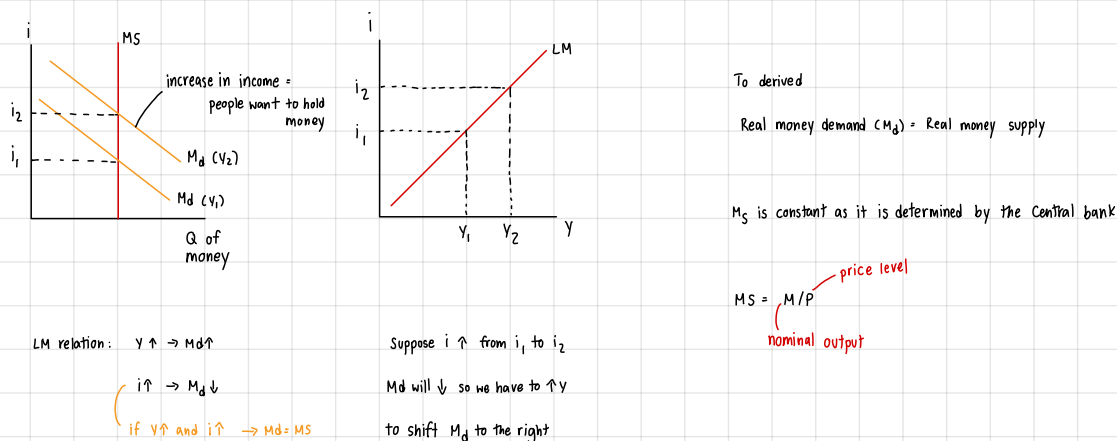
The IS curve shows a negative relationship between i (interest) and Y (output) in goods & service market.
Investment depends on interest rates (higher interest rate discourage investor (higher cost of borrowing))

$$I = I_0 - I_1(i)$$

Larger I_1 = investment more sensitive to $\Delta(i)$

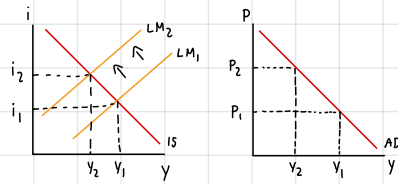
IS curve $Y = C(Y-T) + I(i) + G$

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



when there's a change in i Y have to also change to stay at equilibrium.
 $\therefore$ when $i \uparrow$ $Y \uparrow$ b/c when $i \uparrow$ $M_d \downarrow$ and $Y \uparrow$ $M_d \uparrow$, this will cancel out.

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



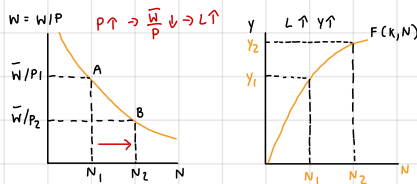
slope of AD is downward because as price level increase = output decrease

When $P \uparrow \rightarrow LM$ shift to the left

$\rightarrow i \uparrow \rightarrow I \downarrow \rightarrow AE \downarrow \rightarrow Y \downarrow$

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

$$MPL = \frac{W}{P}$$



Price $\uparrow$, Real wage $\downarrow$, inducing firms to hire more labour and increase in output

$\bullet P \uparrow \rightarrow W/P \downarrow \rightarrow \text{Labour demand} \uparrow \rightarrow L \uparrow \rightarrow Y \uparrow$
SRAS shows positive relationship P and Y

