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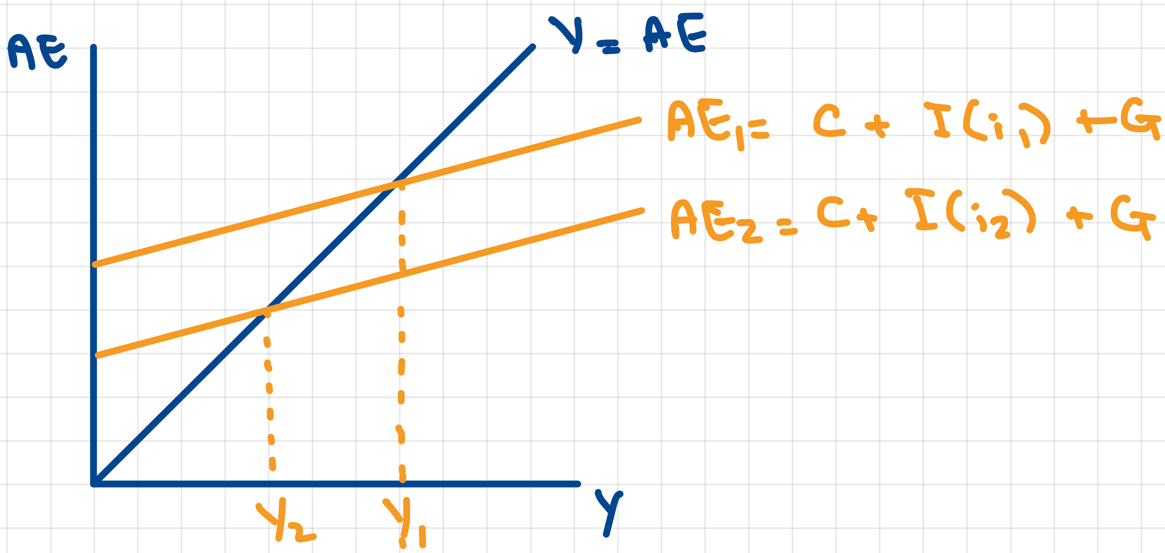
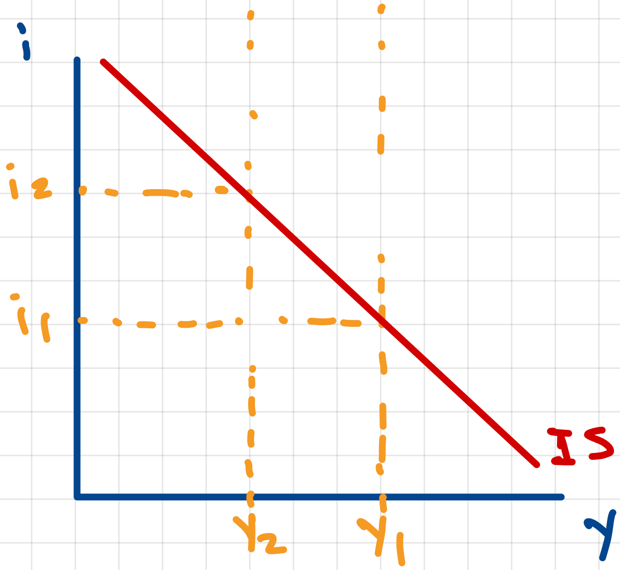
Quiz EE212

①.

Keynesian cross:



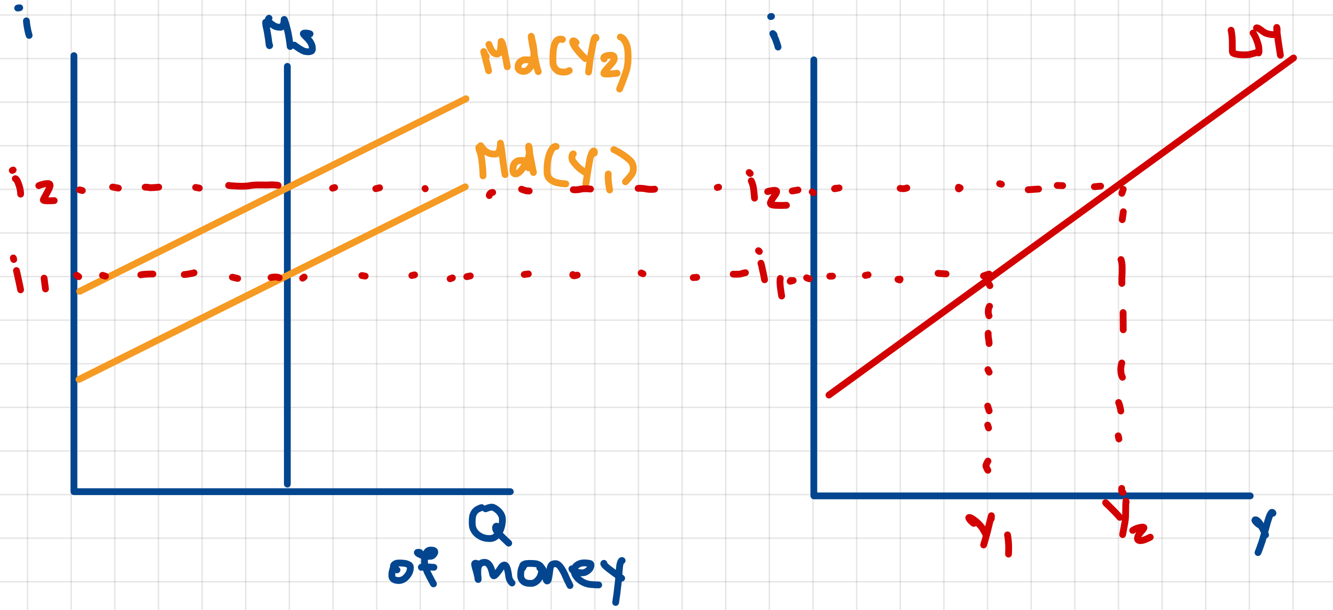
IS Curve:



IS is made of a Locus of points representing every equilibrium in the Keynesian cross with every i.

2.

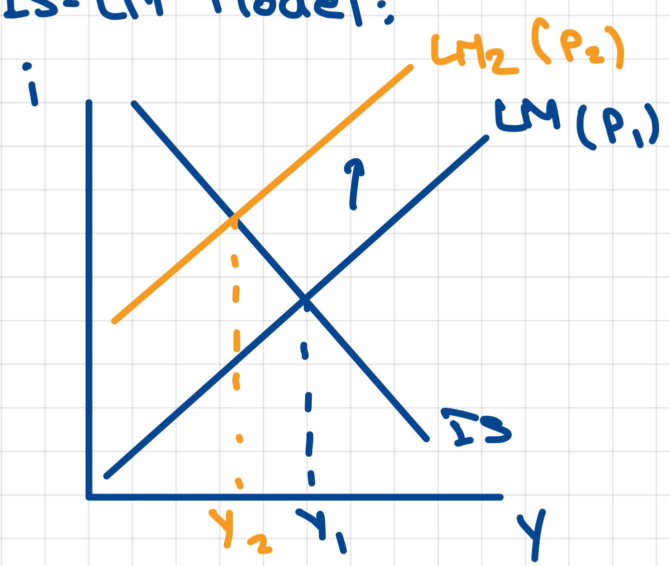
Money Market: LM curve

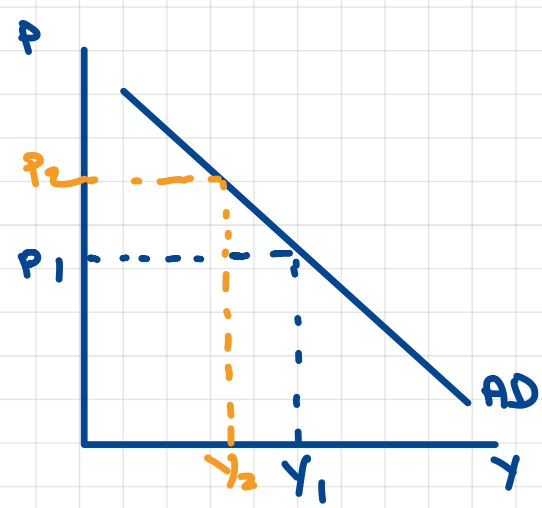


LM is a locus of points where equilibrium occur in the money maret (Ms = Md).

3.

IS-LM Model: AD curve:





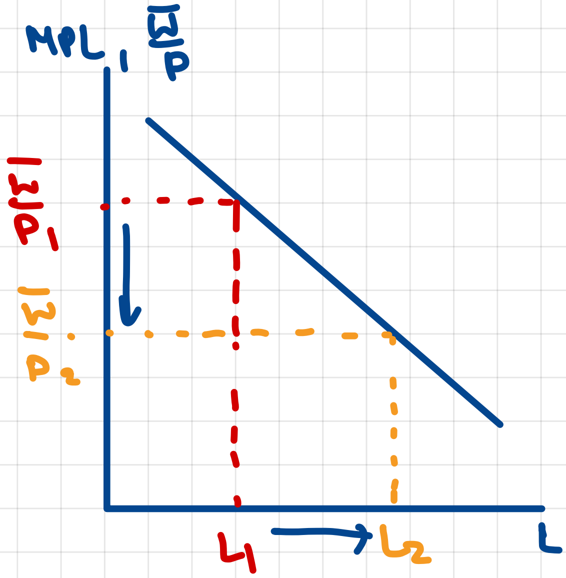
Higher price shifts LM upwards lowering Y.

(P↑ → $\frac{M}{P}$ ↓ (real money supply) → i↑)

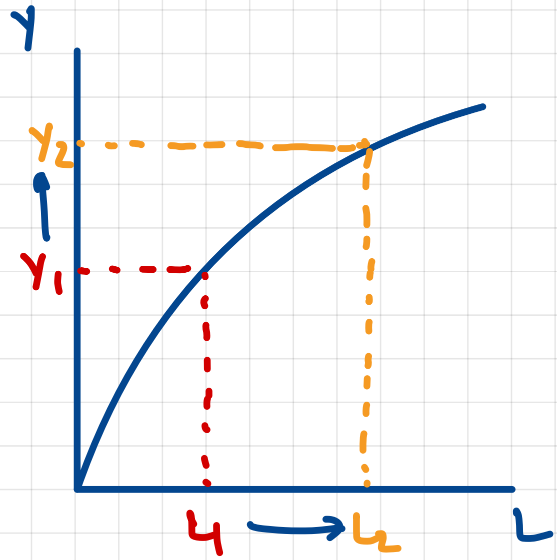
(i↑ → I↓ → AE↓ → Y↓) Thus P↑ → Y↓, P↓ → Y↑

④.

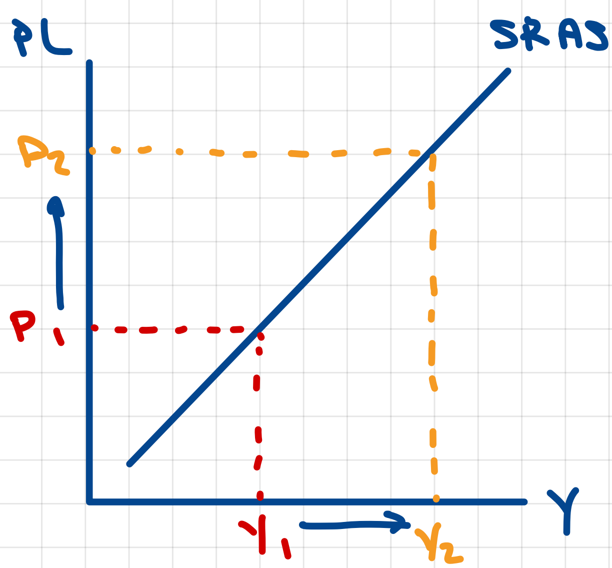
Labor demand:



Production Function:



SRAS curve



When price increases, short-run real wage decreases
→ firms hire more labor → more output.

$P\uparrow \rightarrow \frac{\overline{W}}{P}\downarrow \rightarrow L \text{ demand}\uparrow \rightarrow L\uparrow \rightarrow Y\uparrow$

or $P\downarrow \rightarrow \frac{\overline{W}}{P}\uparrow \rightarrow L \text{ demand}\downarrow \rightarrow L\downarrow \rightarrow Y\downarrow$

Thus $P\uparrow \rightarrow Y\uparrow$; $P\downarrow \rightarrow Y\downarrow$