

Quiz EE212

Time allowed: 1 hour from 19.00 – 20.00

Submission time: 15 minutes

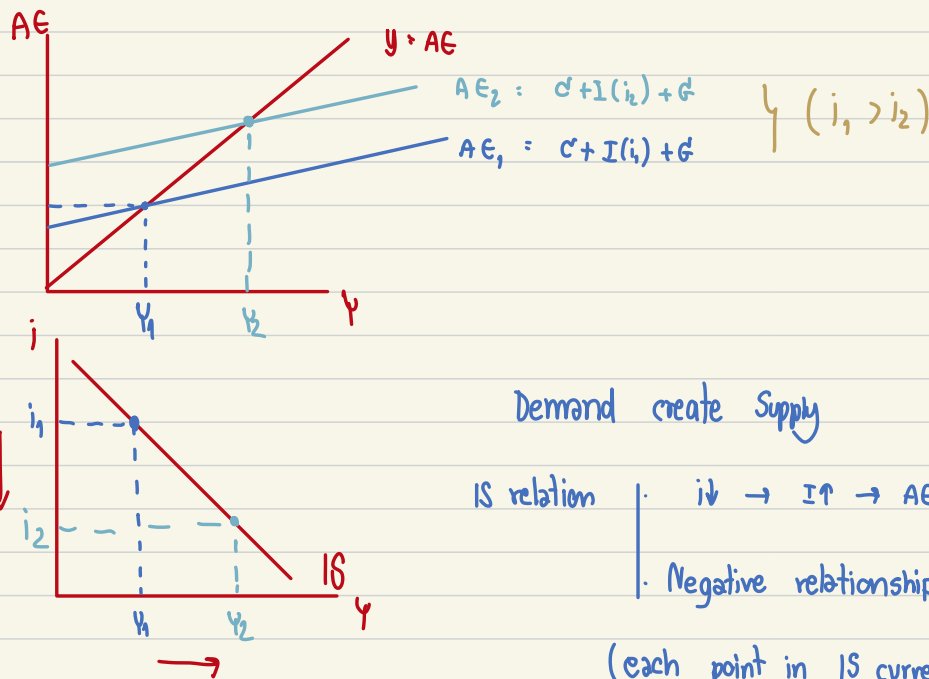
Latest submission by 20.15

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.
2. Use TWO relevant diagrams to explain how the LM curve is derived from the money market.
3. Use relevant diagrams to explain how the AD curve is derived from the IS-LM model.
4. Use relevant diagrams to explain how the SRAS curve is derived from the labor demand and the production function.

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

$$Y = AE$$



IS relation

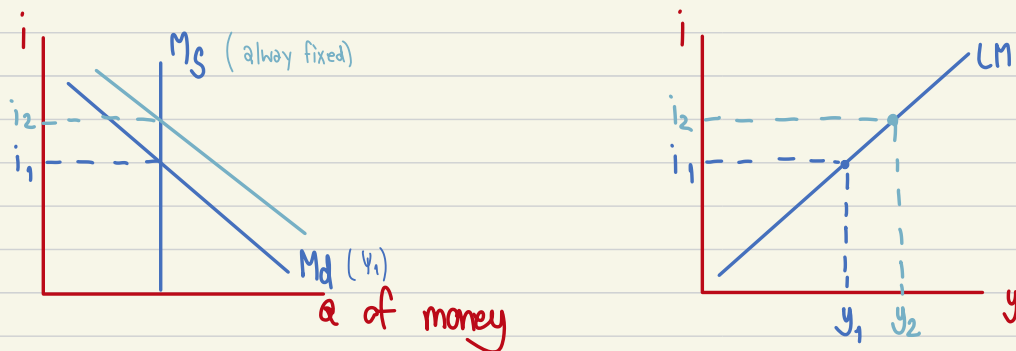
- $i \downarrow \rightarrow I \uparrow \rightarrow AE \uparrow \rightarrow Y \uparrow$
- Negative relationship between i and y .

(each point in IS curve is an eqbm in Keynesian cross)

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

$$M_s = M_d$$

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



LM relation

- $Y \uparrow \rightarrow M_d \uparrow$
- $i \uparrow \rightarrow M_d \downarrow$

} $M_d = M_s$

: Positive relationship between i and Y .

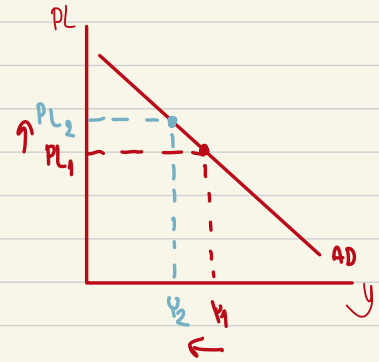
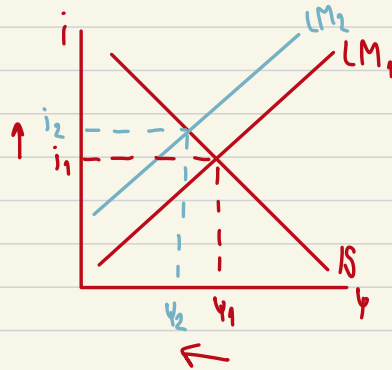
(each point in LM curve is eqbm in the Money market)

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

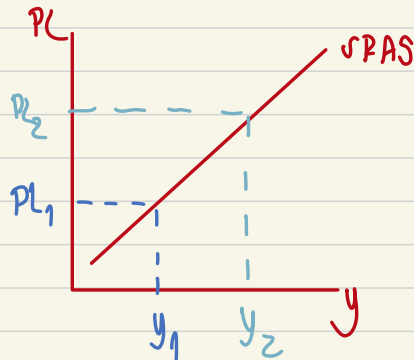
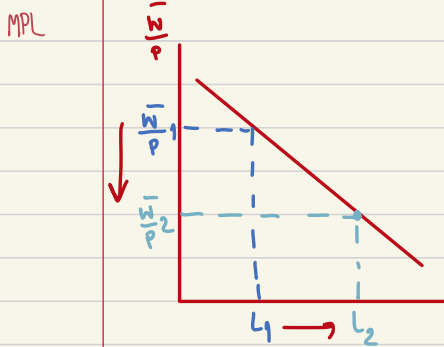
When $P \uparrow$; MM : $P \uparrow \rightarrow \frac{M}{P} \downarrow \rightarrow i \uparrow$

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

\therefore AD relationship = $P \uparrow \rightarrow Y \downarrow$



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



\therefore when $P \uparrow \rightarrow \frac{w}{P} \downarrow \rightarrow L \uparrow \rightarrow Y \uparrow$