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Final Exam Quiz

THOSE WHO COPY YOUR FRIENDS OR LET YOUR FRIENDS COPY YOU WILL BE AWARDED ZERO.

ปล ผมจดไว้แล้วนะครับว่าตอนมิดเทอมใครลอกของใคร ครั้งนี้ขอเตือนเลยว่าผมไม่ยอมแล้วนะครับ
ผมต้องลงโทษ ไม่งั้นต่อไปคงไม่มีใครอยากซื่อสัตย์

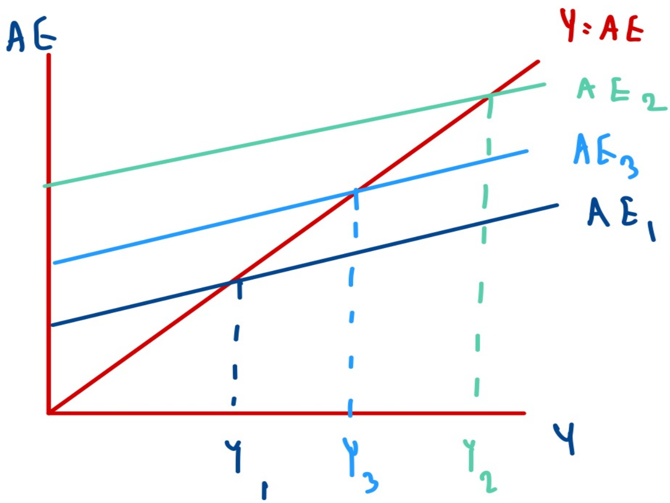
Submission Guide: You can upload up to 3 files on Moodle. If the whole file is too large, you should break it down and upload 3 files, each containing 1 question.

Question 1

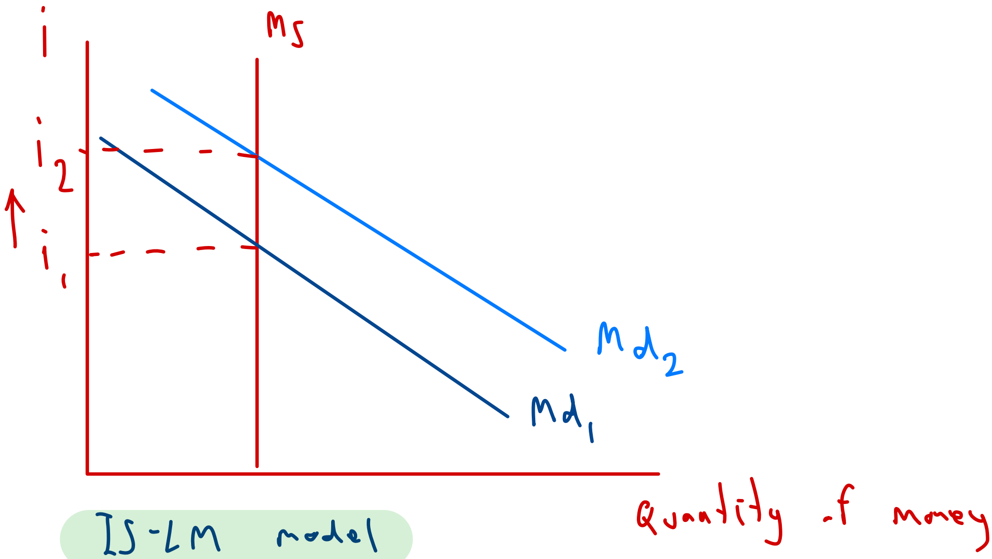
Draw 3 diagrams (Keynesian Cross, Money Market, IS-LM) to **show and briefly explain** the followings:

a. The crowding-out effect when the government increases its spending
b. Another policy that can be used to avoid the crowding-out effect

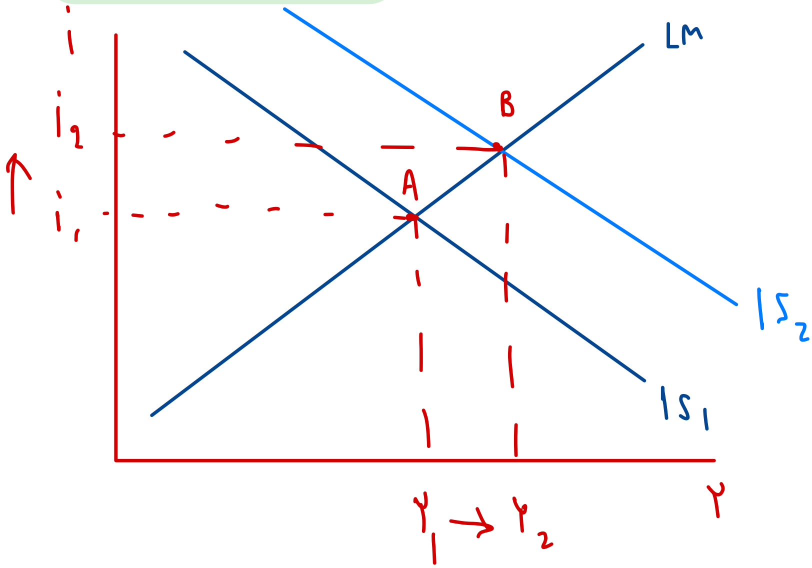
The Keynesian Cross



Money market



IS-LM model



a. The crowding-out effect when the government increases its spending

- An increase in government purchases shifts the IS curve to the right. The equilibrium moves from A to B. Income rises from Y_1 to Y_2 and the interest rate rises from i_1 to i_2. When the interest rises, firms cut back on the investment plans, which discourage business from making investment.

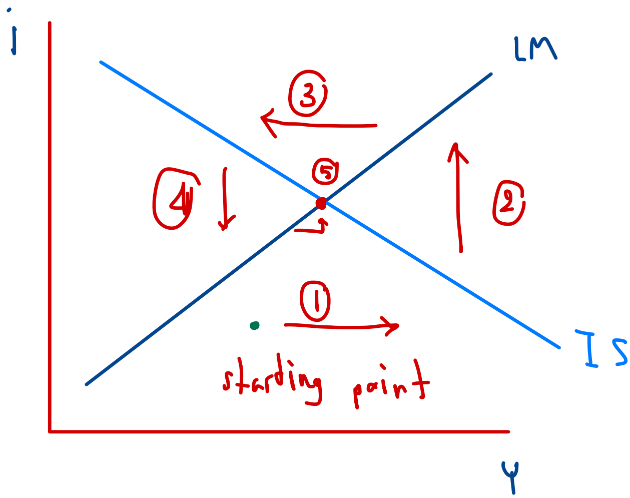
b. Another policy that can be used to avoid the crowding-out effect

- Expansionary monetary policy

Question 2

Draw the IS-LM diagram. **<u>Pick ANY point on either the IS curve or the LM curve</u>** (NOT the general equilibrium point). ย้ำว่าเลือกจุดไหนก็ได้ที่อยู่บนเส้น IS **<u>หรือ</u>** LM **<u>ที่ไม่ใช่จุดตัดตรงกลางของสองกราฟ</u>**

<u>Use the diagram that you draw to briefly explain</u> how the two markets at **<u>your current point</u>** will adjust towards the general equilibrium.



To adjust the green point towards the equilibrium. First, the level of production is below the equilibrium so firm are encouraging to increase in production to increase in output. Then, money mkt will adjust because there is excess in md, so interest rate in bond should increase. When interest rate increase then, output will decrease. At A, there will be excess money supply, and the interest rate reduce

Finally, when interest rate decrease, investment will increase, thus Y increase, and it reach equilibrium.

Question 3

Assume that the liquidity preference function (real money demand) is given by the $L(Y, i) = L_0 + L_Y Y - L_i i$.

Note that L_0 **is autonomous money demand**, while other terms are the same as in the lecture slides.

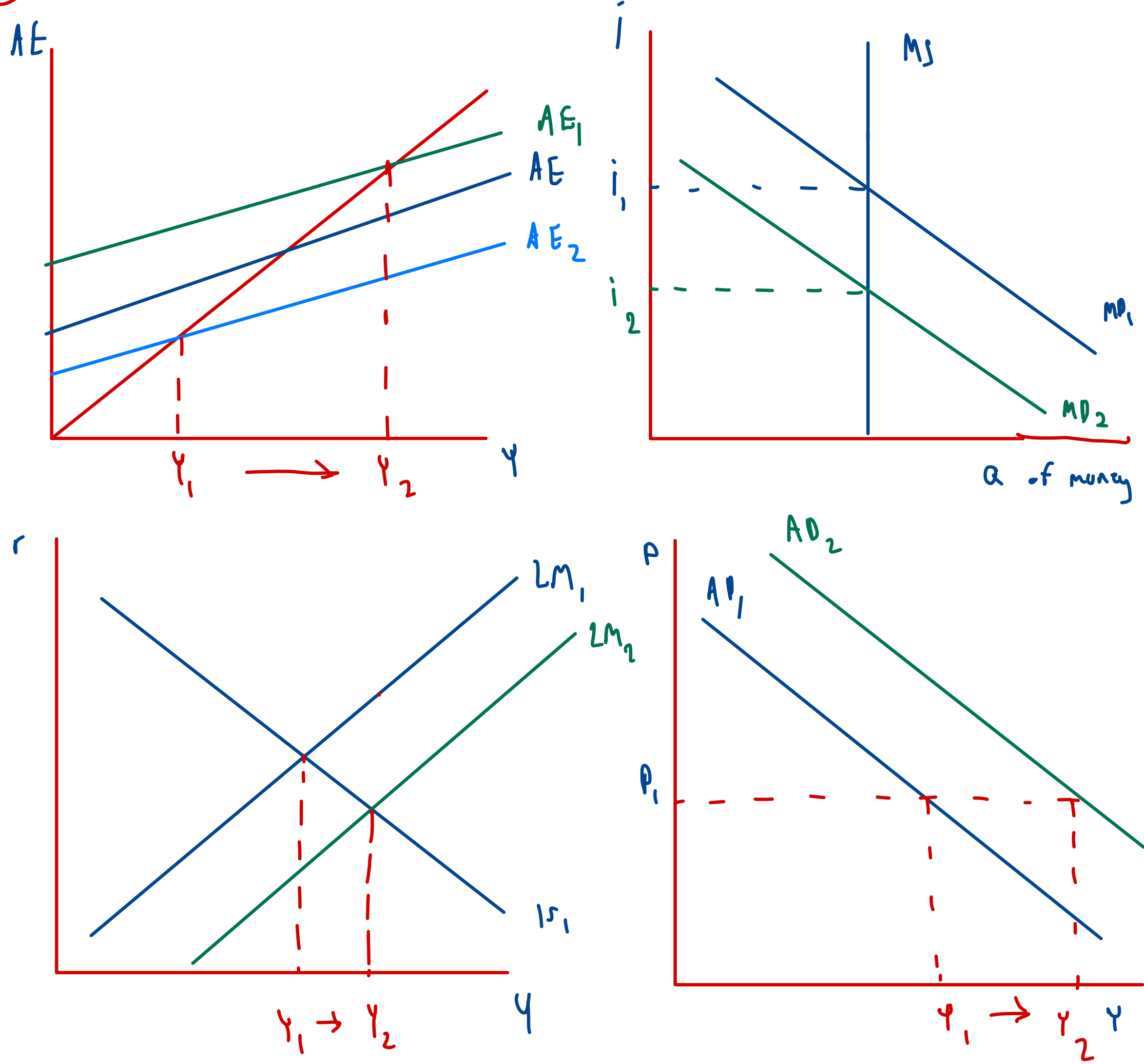
Now suppose that L_0 falls.

a. Give ONE reason why this may happen.

b. Show and briefly explain the effect of the fall in L_0 on the 4 diagrams (Keynesian Cross, Money Market, IS-LM, AD).

a) L_0 falls may arise from increasing in government purchases.

(b) Autonomous money demand L_0 fall



Assume that an increase in government purchases or a decrease in taxes raises income ($Y_1 \to Y_2$) in IS-LM model which LM shift down, this also shifts the AD curve to the right.