

Final Exam Quiz

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

ปล ผมจดไว้แล้วนะครับว่าตอนมิตเทอมใครลอกของใคร ครั้งนี้ขอเตือนเลยที่ผมไม่ยอมแล้วนะครับ

ผมต้องลงโทษ ไม่งั้นต่อไปคงไม่มีใครอยากซื้อสตั๊ด

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:

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

Question 2

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

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

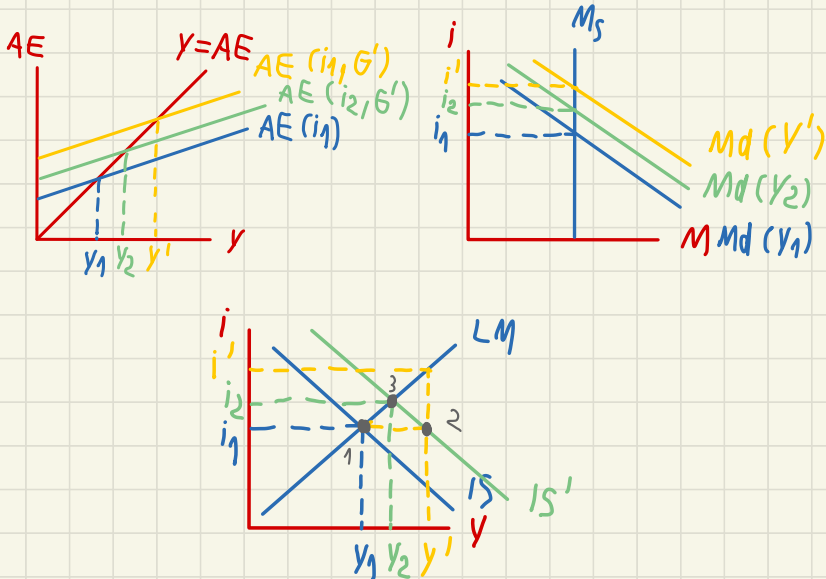
Now suppose that L_0 falls.

- Give ONE reason why this may happen.
- Show and briefly explain the effect of the fall in L_0 on the 4 diagrams (Keynesian Cross, Money Market, IS-LM, AD).

Question 1

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

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



(a)

- when the government increases its spending (G), this raises demand in the economy (AE). Firms produce more to supply at the higher demand (so that $Y=AE$). This raises output and hence income (Y) in the economy.
- when people have more income (Y), they want to buy more goods. This raises the money demand (Md). The rise in money demand (Md) raises the interest rate (i).
- However, higher interest rate (i) discourages investment (I). With lower investment, output falls (Y)
- As a result, the new equilibrium has higher output and higher interest rate.

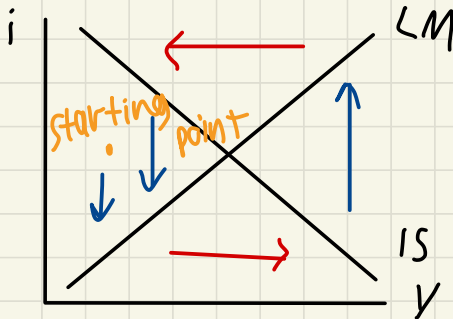
(b)

Expansionary Fiscal Policy when G increases its spending to avoid the crowding-out effect.

Question 2

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

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



MM: $M_s > M_d \rightarrow i \downarrow$
GM: $i \downarrow \rightarrow I \uparrow \rightarrow Y \uparrow$
MM: $Y \uparrow \rightarrow M_d \uparrow \rightarrow i \uparrow$
GM: $i \uparrow \rightarrow I \downarrow \rightarrow Y \downarrow$
MM: $Y \downarrow \rightarrow M_d \downarrow \rightarrow i \downarrow$

At the starting point, it's on the left of LM. It's mean money supply is more than money demand. So the banks lower interest rate. And then in goods & services market people will invest more and have more output. After that, in money market, money demand will increase. To maintain the demand for money equal to the fixed money supply, the level of interest rate will raise. After interest rate raises, people will invest less and the output will less too. Then, money demand will decrease and interest rate will decrease as money demand. At last, the point will adjust to the equilibrium of IS-LM.

Question 3

& income, interest

Assume that the liquidity preference function (real money demand) is given by the $L(Y, i) = L_0 + L_1Y - L_2i$.

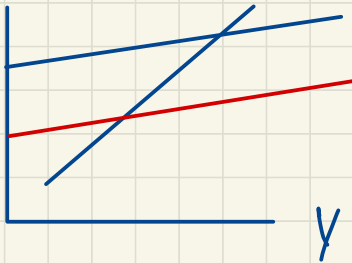
Note that L_0 is **autonomous money demand**, while other terms are the same as in the lecture slides.

Now suppose that L_0 falls.

- Give ONE reason why this may happen.
- Show and briefly explain the effect of the fall in L_0 on the 4 diagrams (Keynesian Cross, Money Market, IS-LM, AD).

a) money demand falls because nowadays people admire cashless society. Thus, it's easy to pay and in the market is more accessed. Moreover, from covid-19 situation, it reduces exposure to each other.

b) AE

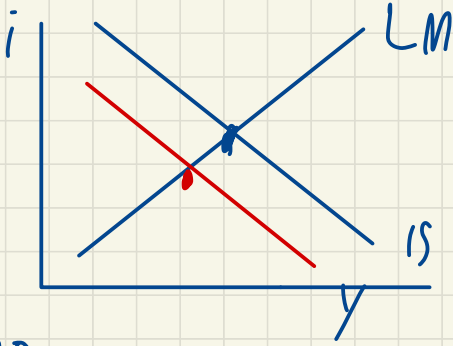


Keynesian cross



money market

IS-LM



AD
 R, i

