

Quiz EE212

Time allowed: 1 hour from 19.00 – 20.00

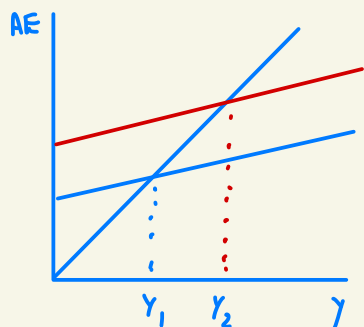
Submission time: 15 minutes

Latest submission by 20.15

Do not write too much. Brief explanation is sufficient.

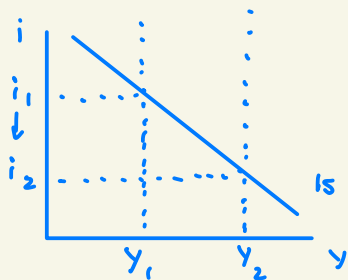
1. Use TWO relevant diagrams to explain how the IS curve is derived from the goods market.
2. Use TWO relevant diagrams to explain how the LM curve is derived from the money market.
3. Use relevant diagrams to explain how the AD curve is derived from the IS-LM model.
4. Use relevant diagrams to explain 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.



if $i \downarrow I \uparrow : AE \uparrow$

$$\left. \begin{aligned} AE_2 &= C + I(i_2) + G \\ AE_1 &= C + I(i_1) + G \end{aligned} \right\} i_1 > i_2$$



Suppose i_1 fall to i_2 interest output

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

(negative relationship between i and y)

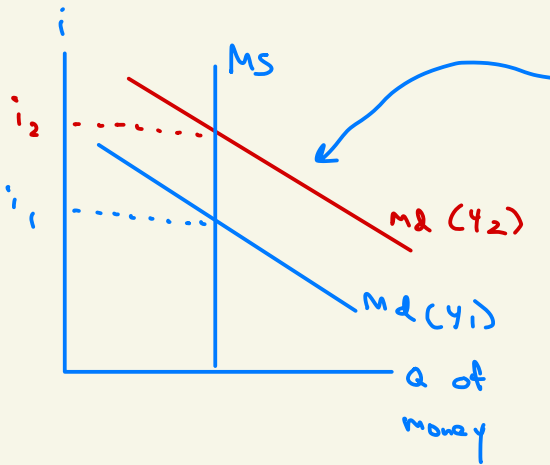
(IS relation) in the commodity market

investment depends on interest rate

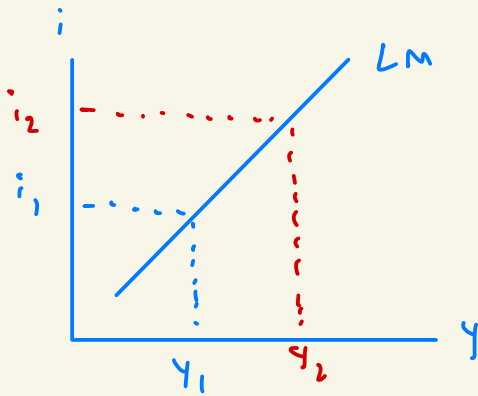
$$Y = C(Y - T) + I(i) + G$$

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

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



people have more income than people want to hold more money



$M_s = M/P \rightarrow$ Price level
 $\downarrow$
 nominal amount

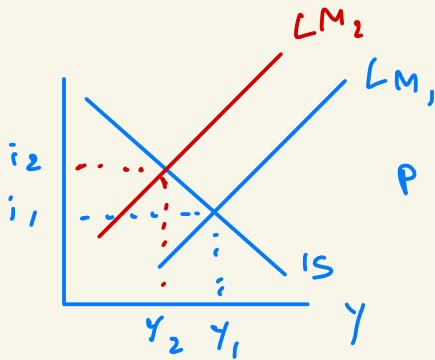
Real money demand (M_d) = Real money supply (M_s)

M_d determined by
 $CB, \text{ constant}$

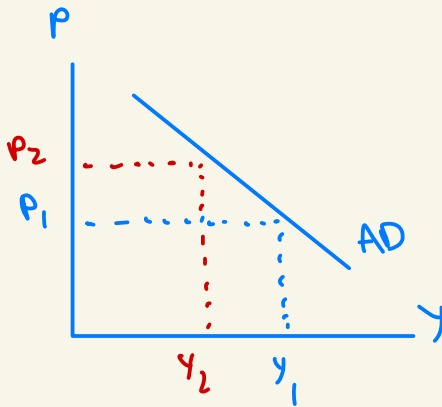
M_s determined by
 liquidity preference
 theory

$y \uparrow \rightarrow M_d \uparrow$
 $i \uparrow \rightarrow M_d \downarrow$; $M_d = M_s$

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

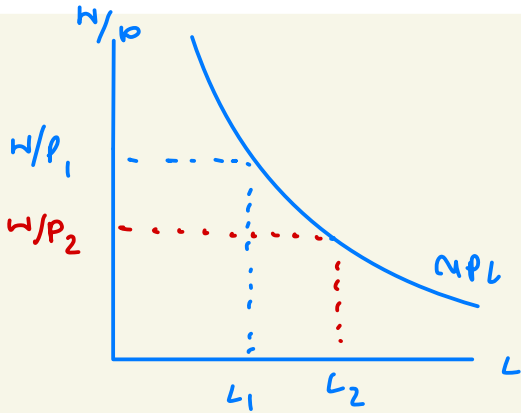


$P \uparrow \rightarrow LM \text{ shift left} \rightarrow i \uparrow \rightarrow I \downarrow$
 $\rightarrow AE \downarrow \rightarrow y \downarrow$



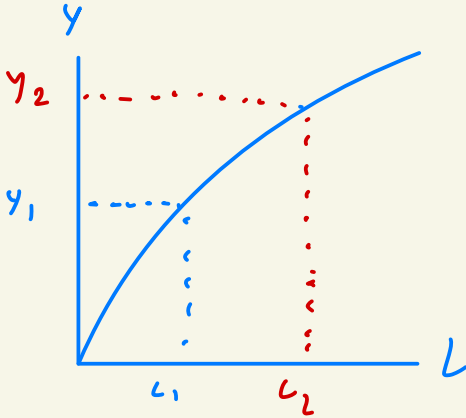
slope of AD is downward because
as price level increase
the output decrease

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

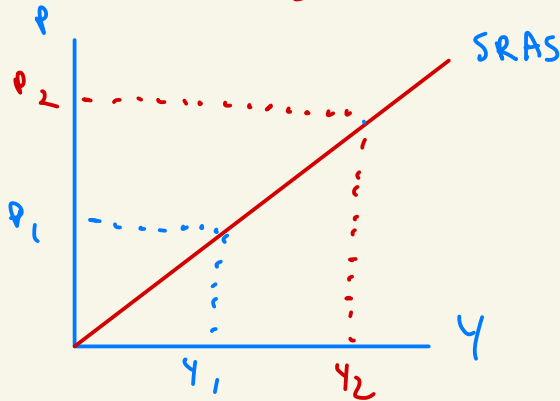


As $P \uparrow$, $w/p \downarrow$

inducing firms to hire more labor and increase Output



$P \uparrow \rightarrow w/p \downarrow \rightarrow \text{Labor Demand} \uparrow$
 $\rightarrow L \uparrow \rightarrow Y \uparrow$



$L = \text{Labor}$
 $w/p = \text{real wage}$
 $Y = \text{income}$

SRAS shows positive relationship P & Y