

G1. $G \uparrow \Rightarrow DAE \uparrow$ DAE shifts to the left
 From DAE_0 to DAE_1

$\Rightarrow Y \uparrow = t_0 Y_0 \rightarrow t_1 Y_1$, multiplier $\uparrow AB$

G2 Is shifts to the right on horizontal axis: $Y_1 = Y_0$

G3 In money market when $Y \uparrow \Rightarrow m^d \uparrow$ m^s shifts to right

$\rightarrow r \uparrow$ so $r_H \uparrow$ so r_1

2.B

Monetary policy
 because crowding-out effect only occurs when we applied fiscal policy

Explaining adjustment from E_0 to E_1

G2 At E_0 , E_0 is on LM curve, but not new IS curve
 It is an equilibrium in money market, but not equilibrium in product market

At E_0 , $Y < DA_0 \rightarrow$ Excess demand for output \rightarrow Inventory \downarrow
 \rightarrow Producers produce more \rightarrow use more factor of production \rightarrow In product market $Y \uparrow$ from Y_0 to Y_1

G3 In money market when $Y \uparrow \rightarrow M^d \uparrow$ M^d shifts to the right
 $\rightarrow r \uparrow = r_0 \rightarrow r_1$

Explaining adjustment from E_0 to E_1

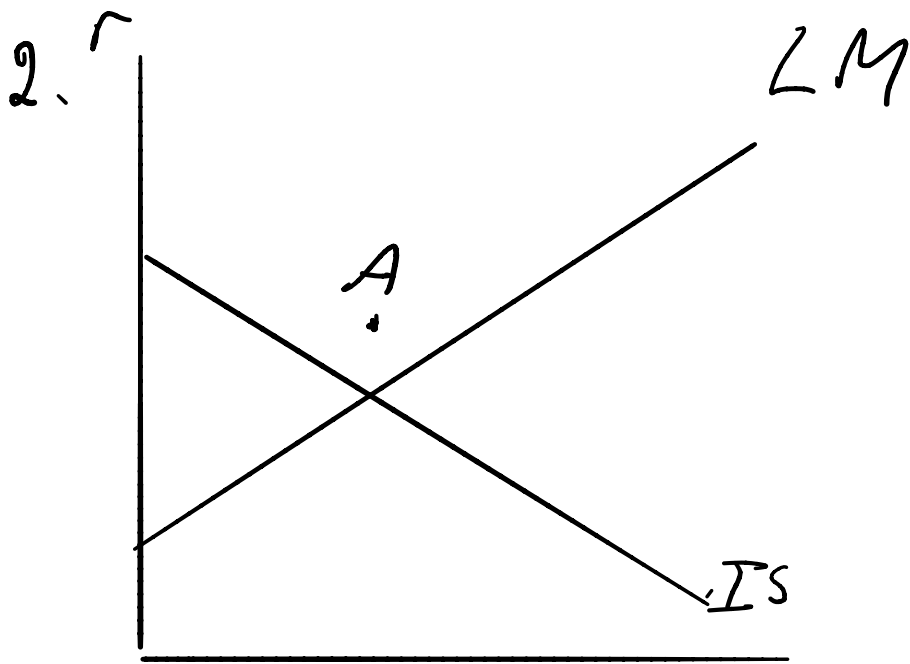
G1 In production market when $r \uparrow \rightarrow I \downarrow \rightarrow DA \downarrow$

DAE shifts from DAE_B to $DAE_C \rightarrow Y \downarrow = Y_B \rightarrow Y_C = Y_1 \rightarrow Y_0$

Crowding-out effect

G2 At the new equilibrium $r = r_1$, new equilibrium $Y = Y_1$
 at point equilibrium point E_1

The net change of equilibrium r and equilibrium Y
 of fiscal expansion is $r \uparrow = r_0 \rightarrow r_1$, $Y \uparrow = Y_0 \rightarrow Y_1$



Points above LM curve ($r > r_0$)

At point A $\rightarrow M^S > M^d \rightarrow$ Excess supply of money

People use excess supply of money to buy bond \rightarrow Bond p. $\uparrow \rightarrow r \downarrow \rightarrow$
 $M^d \uparrow$ until $M^d = M^S \rightarrow$ Adjust to LM curve

Point above IS curve ($Y > Y_0$)

At point A $\rightarrow Y > DAE \rightarrow$ Inventory \uparrow

Producers produce less good \rightarrow use less factors of production

$Y \downarrow$ until $Y = DAE \rightarrow$ Adjust to IS curve

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