

Final Exam Quiz

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

ปล ผมจดไว้แล้วนะครับว่าตอนมิตเทอมใครลอกของใคร ครั้งนี้ขอเตือนเลยว่าผมไม่ยอมแล้วนะครับ

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

Md

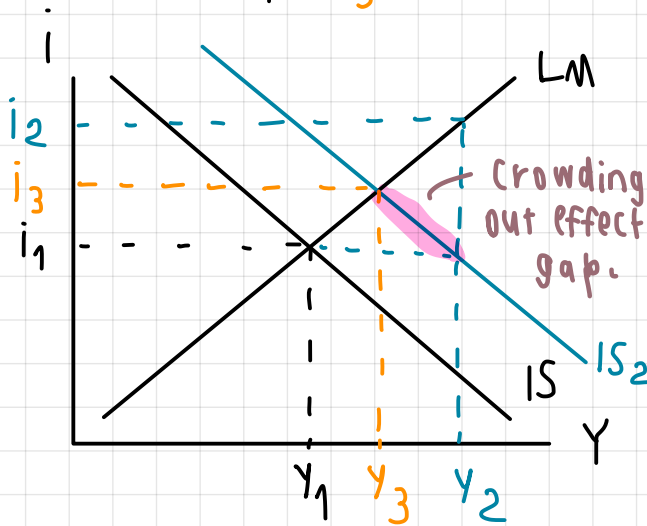
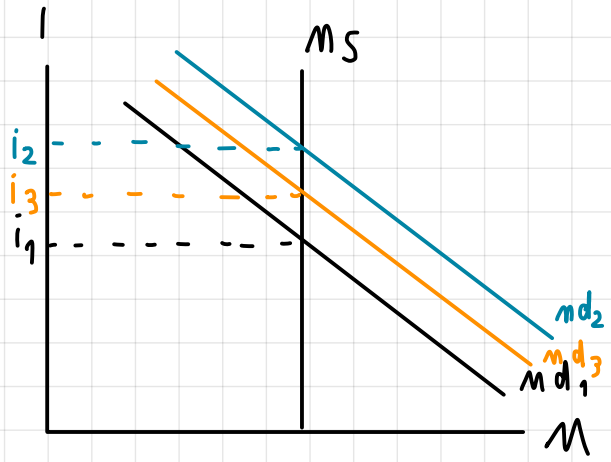
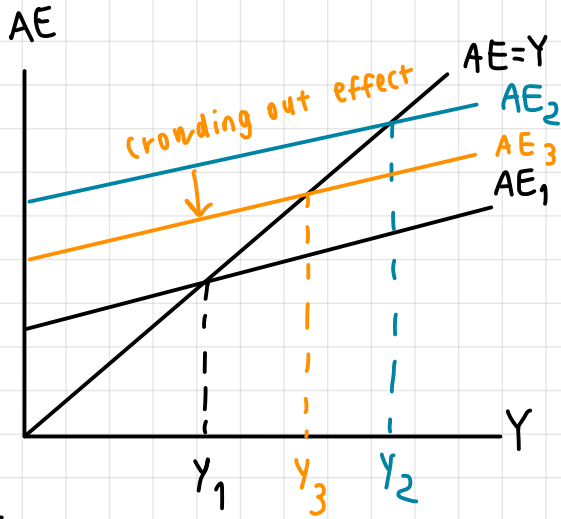
Assume that the liquidity preference function (real money demand) is given by the $L(Y, i) = L_0 + L_Y Y - L_i i$.

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).

when $G \uparrow$



① ② ③

1) GM: $G \uparrow$, $AE \uparrow$, $Y \uparrow$

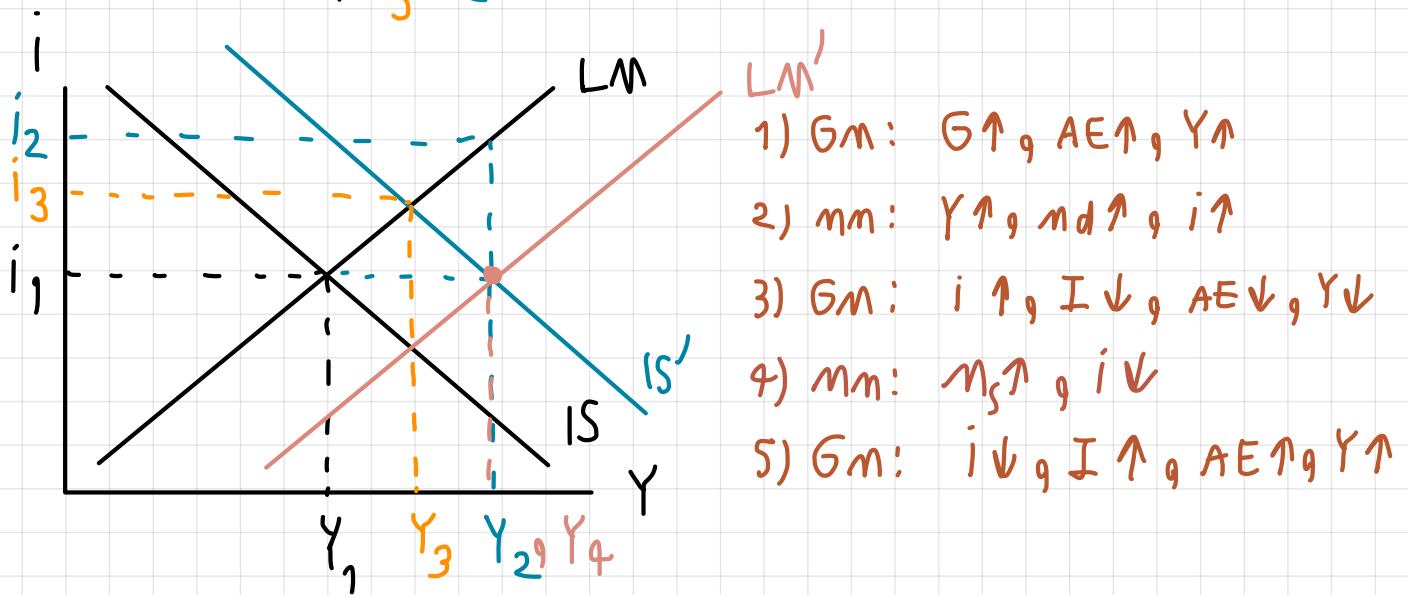
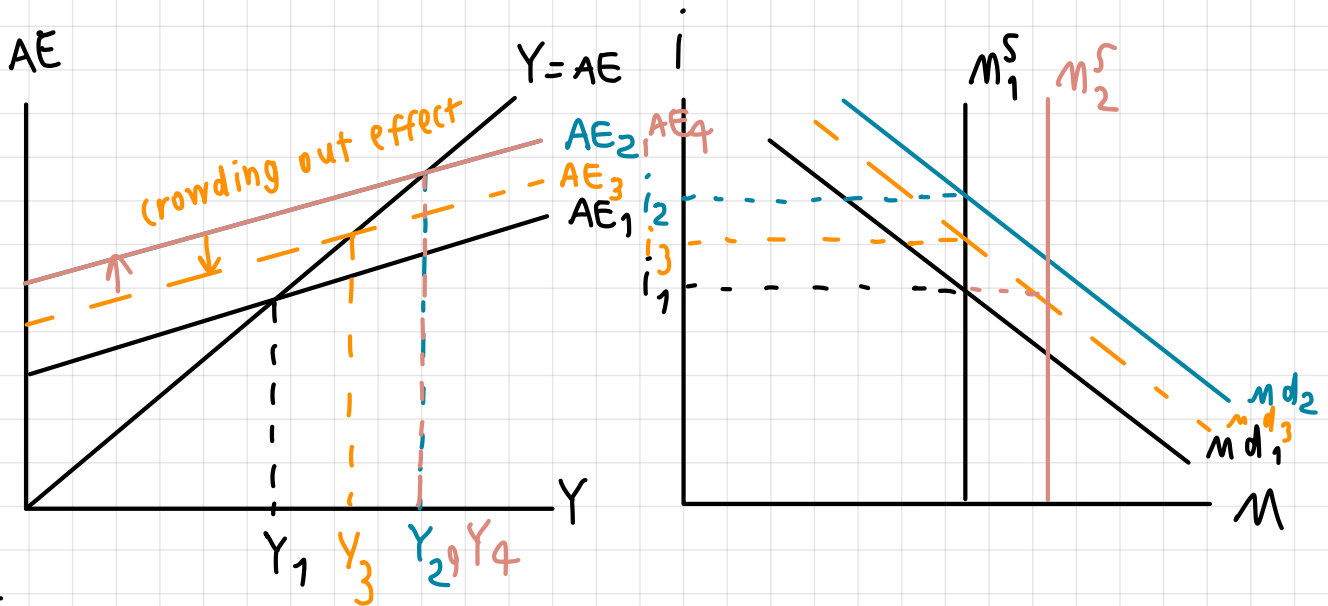
2) MM: $Y \uparrow$, $md \uparrow$, $i \uparrow$

3) GM: $i \uparrow$, $I \downarrow$, $AE \downarrow$, $Y \downarrow$
crowding out effect

a) When government increases spending & Demand in economy will increase the output and income will also increase. When people have more income this means that the money demand will increase because they want to buy more goods and when money demand increases interest rate will increase. However, higher interest rate will discourage business to invest so investment will decrease, output will then fall. As a result, the new equilibrium has higher output and higher interest rate.

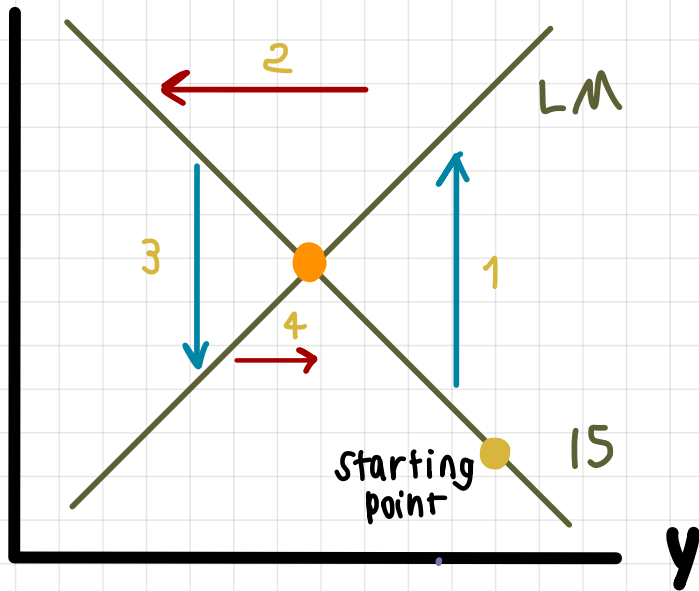
There will be crowding out effect.

b) To avoid crowding out effect government will apply Fiscal policy and monetary policy at the same time.



Government will increase their spending, Demand in economy will increase which make output and income increase when people have more income this make money demand increase because they want to buy goods and then when money demand increase interest rate will also be increase this effect bussiness to invest so Investment will decrease which crowding out effect will happen and output will then fall. At the same time central bank use expansionary monetary policy to increase money supply then interest rate will be fall due to the policy and when interest rate fall bussiness will then want to invest so investment increase output will also increase. As a result crowding out effect will dissapear.

2) 1

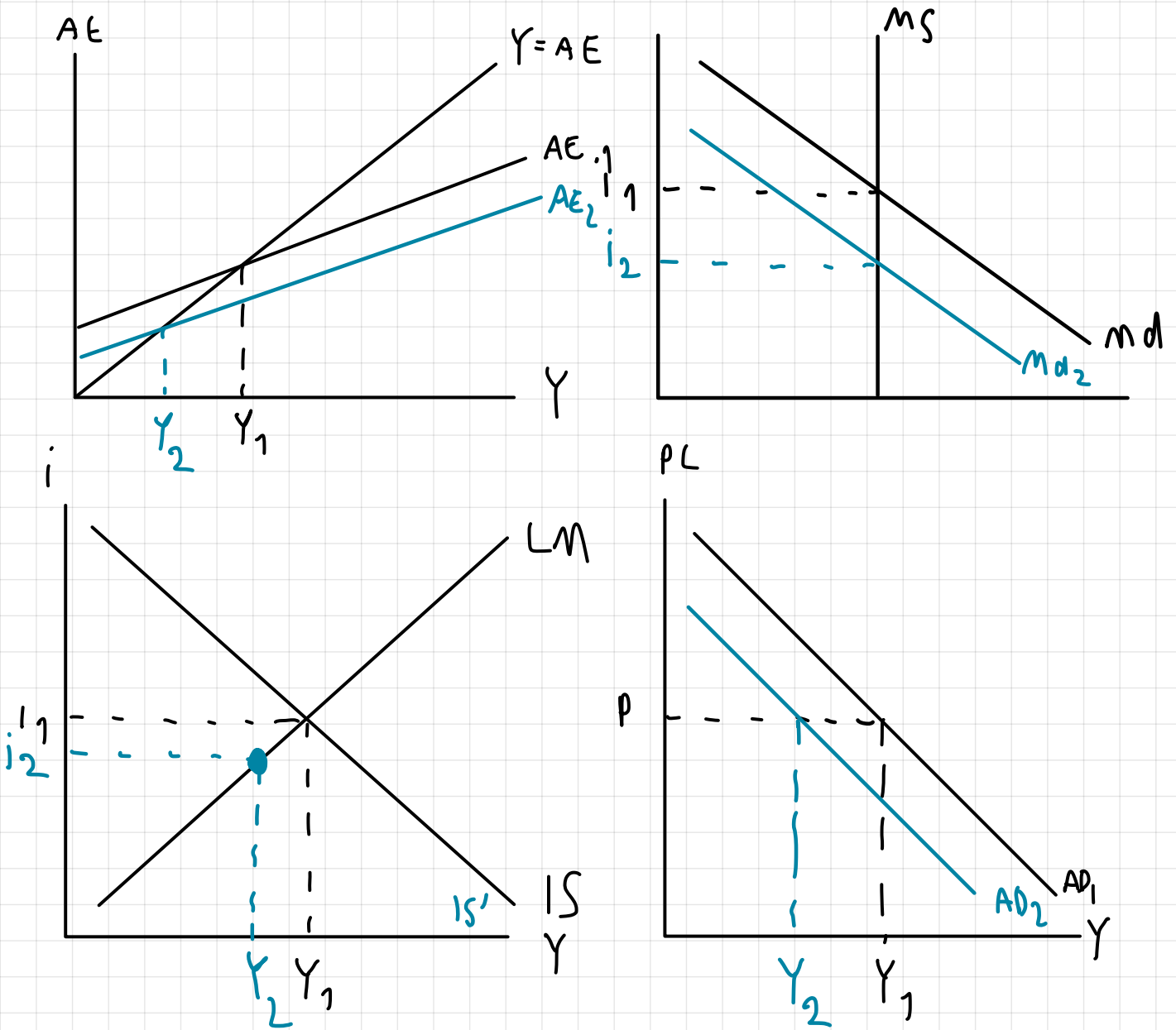


- 1) MM: $i \uparrow \rightarrow I \downarrow$
- 2) GM: $I \downarrow \rightarrow Y \downarrow$
- 3) MM: $Y \downarrow \rightarrow m_d \downarrow \rightarrow i \downarrow$
- 4) GM: $i \downarrow \rightarrow I \uparrow \rightarrow Y \uparrow$

adjustment in the G&S mkt
adjustment in the money mkt

If point is on IS but not LM, money market will adjust. At starting point, it is below LM curve which means that interest rate should be increased. When interest rate increases, investment will decrease which leads output to decrease. This is adjustment in G&S market. After that, when ^{income} output decreases, money demand will also decrease which makes interest rate decrease. This is adjustment in the money market. Lastly, when interest rate decreases, investment will increase which makes output & income to increase. As a result, this point will adjust towards the general equilibrium.

- 3) a) when AE decrease output falls
 b)



when AE decrease output will decrease
 md will decrease so i will decrease
 it will be movement along LM curve
 which make AD decrease because Y decrease
 at the same price.