

Group 4

2. after a wave of credit card fraud, consumers using cash more frequently in transactions. (Odds number)

A wave of credit card fraud causes people to switch to hold more cash. Therefore, the demand of money increases and the money demand curve shifts up. When the demand of money shifts to the right, LM curve will shift to the left. The interest rate can't be sustained at r_0 so the rate is supposed to be rising to r_1 . Due to an increase in interest rate, private firms will invest less. The higher interest rate will also encourage people to save more, thus the consumers will consume less. As consumption (C) and investment (I) are component of Y , when C and I decrease, Y will also drop.

Since the higher interest rate causes the higher cost of borrowing, it will affect the company investment, then less workers are needed. So, the unemployment rate is going to increase.

