Extra Credit assignment : We Travel Together

เราเที่ยวด้วยกัน or “We travel together” is a campaign from the government that Thai people will get an offer to get a discount of 40% off from the accommodation and plane ticket. As a result of money over 1.8 billion Baht widespread in the economy and government is planning to increase the economic stimulus to increase economic activity.

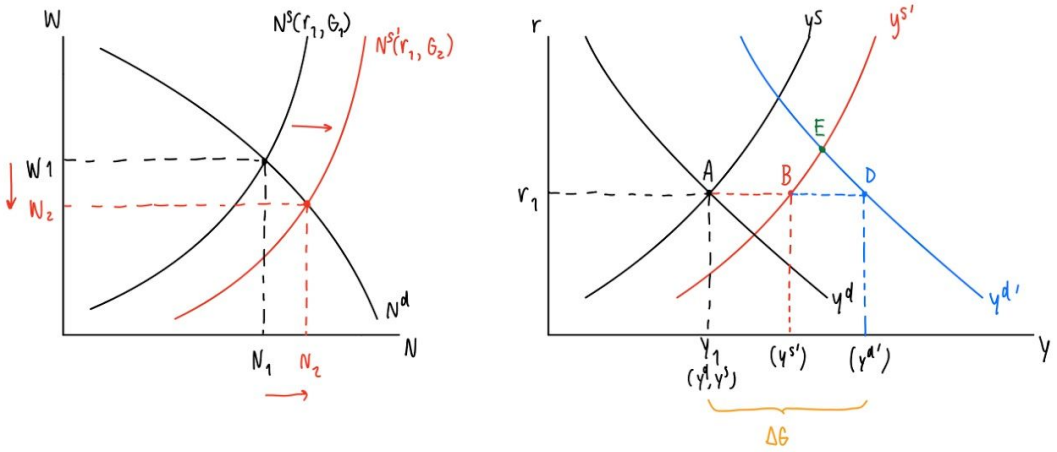
From the news, the government is doing the fiscal expansionary policy which is to increase government spending. The model that I will use to analyze is intertemporal model analysis.

As government spending increases, the output and income increases. In this case, the hotel industry and domestic airline.

The intertemporal model analysis

Step 1: the direct effect of change in government spending

• Effect on Y^S

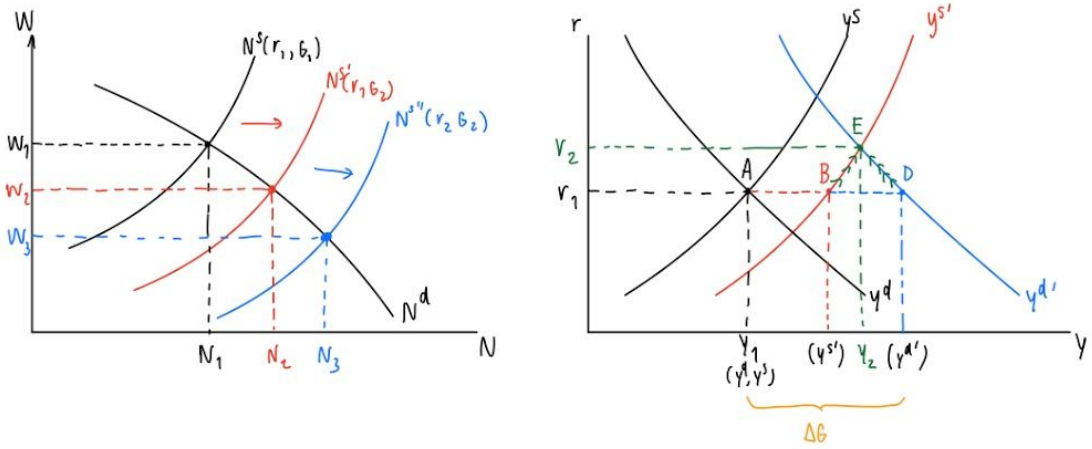


When government spending increase, tax must increase since G=T. When tax increase, disposable income decrease ($\pi - T \downarrow$). Resulting in decrease in leisure and people working more ($\ell \downarrow \rightarrow N^S \uparrow$). Labor supply shift right ($N^S(r_1, G_1) \rightarrow N^{S'}(r_1, G_2)$). N^S shift right cause employment to increase ($N_1 \rightarrow N_2$) and wage to decrease ($w_1 \rightarrow w_2$). After increase in employment ($N \uparrow$), the production function increase ($Y = zf(K, N) \uparrow$), cause aggregate demand (Y^d) and aggregate supply (Y^S) to shift right.

The size that Y^d shifts is bigger than Y^S. The shifts in Y^d is equals to change in government spending (ΔG).
Y^d shift (A→D), Y^S shift (A→B)

Step 2 : the effect of rising r

• Effect of rising r



This is the process of r increasing to adjusting to equilibrium at point E.

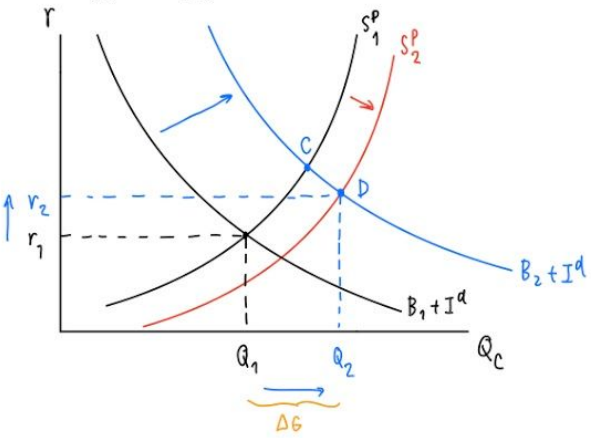
When r increase, C^d and I^d decrease cause Y^d to decrease from D to E. Another effect from increasing in interest rate is the opportunity cost of leisure increase then leisure will decrease. After people spend less time on leisure, people will go to work more. Labor supply increase and shift right ($N^{s'} \rightarrow N^{s''}$). Cause real wage to decrease ($W_2 \rightarrow W_3$) and increase in employment ($N_2 \rightarrow N_3$). Resulting in increase in Y^s or aggregate supply (B → E).

Both are approaching point E which are equilibrium from r increasing ($r_1 \rightarrow r_2$)

In <u>credit market</u>

Change in borrowing = Change in government spending

$\Delta B = \Delta G$



$\Delta T = 0$

$\Delta C < 0$

S^p shift < $B + I^d$ shift

∴ from good market, $\Delta Y < \Delta G$ because y is crowding out by decreasing in consumption and investment from rising in r.

from labor market, employment increase and real wage decrease.

from credit market, r increase and private saving (Y−C−T) increase and investment decrease cause future capital to decrease and MP_L' to decrease as well.