<u>Quiz EE212</u>

<u>Time allowed: 1 hour from 19.00 – 20.00</u>

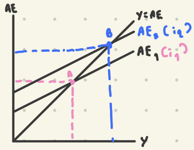
<u>Submission time: 15 minutes</u>

<u>Latest submission by 20.15</u>

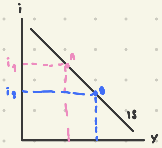
Do not write too much. Brief explanation is sufficient.

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.



G&S market

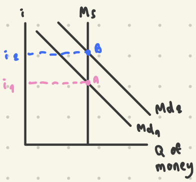


IS-LM

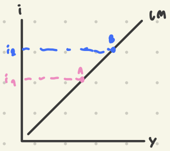
The IS curve is a locus of the equilibriums on the Y=AE line.

It shows a negative relationship between interest (i) rate and the output/income (Y) because when $i\uparrow \rightarrow I\downarrow \rightarrow AE\downarrow \rightarrow Y\downarrow$

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



money market



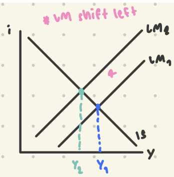
IS-LM

The LM curve is the locus of equilibriums on the money market. (Md = Ms)

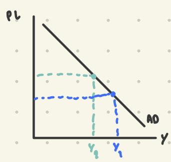
It shows a positive relationship between interest rate (i) and output/income (Y) because when $Y\uparrow \rightarrow Md\uparrow \rightarrow i\uparrow$

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

money market



IS-LM

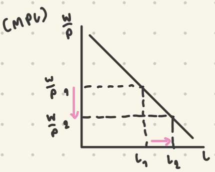


AD-AS

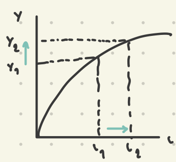
It is derived from the relationship between P & Y of the LM curve. And it is a negative relationship because when $P\uparrow \rightarrow \frac{M}{P}\downarrow \rightarrow i\uparrow \rightarrow I\downarrow \rightarrow AE\downarrow \rightarrow Y\downarrow$

Thus, output/income (Y) goes down when price level (P) goes up.

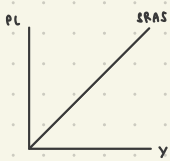
4. Use relevant diagrams to explain how the SRAS curve is derived from the labor demand and the production function.



labor demand



production function



AS-AD

It is a positive relationship between price level (P) and income/output (Y) because in the short-run, the price and wage is still sticky.

So, when $P\uparrow \rightarrow \frac{W}{P}\downarrow \rightarrow L\uparrow \rightarrow Y\uparrow$

Thus, output/income (Y) increases when price level (P) increases.