Group 8

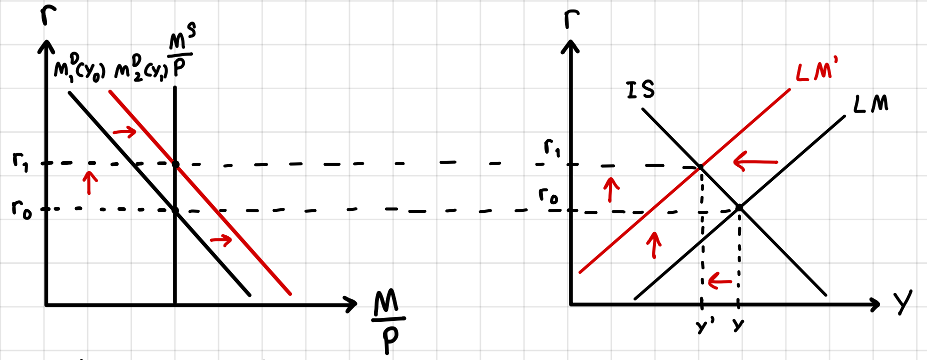
การหลอกลวง

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

For each shock,

a. use the *IS-LM* diagram to show the effects of the shock on ***Y*** and ***r***. Explain the mechanism.

b. determine what happens to ***C***, ***I***, and the unemployment rate.



Money market

IS - LM

a) After a wave of credit card fraud, consumers turn to use more cash, then the money demand shifts to the right as the demand for money increases ($M_1^D \rightarrow M_2^D$). The new equilibrium interest rate increases from r_0 to r_1 for each level of Y. Assuming that all other exogenous variables (including M^S and P) are not change, so $\frac{M^S}{P}$ does not change. From this consequence in the money market, we can derive the LM curve. LM curve will shift to the left from LM to LM'. The new equilibrium output will be at Y'. (decreasing from Y to Y')
The new equilibrium interest rate will be increased from r_0 to r_1.
(P.S : $r_1 > r_0$, $Y' > Y$)

b) As the shift in LM, the level of output decreases and the interest rate increases. The fall in Y makes the consumption (C) to fall. The increasing in r makes the investment to be decreased. Moreover, the unemployment rate will be increased as the decreasing in Y. (As income falls, the number of labors that the firm want to hire will be decreased / smaller. It leads to the increasing in unemployment rate)