

Final Exam Quiz

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

ปล ผมจดไว้แล้วนะครับว่าตอนมิตเทอมใครลอกของใคร ครั้งนี้ขอเตือนเลยที่ผมไม่ยอมแล้วนะครับ

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

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

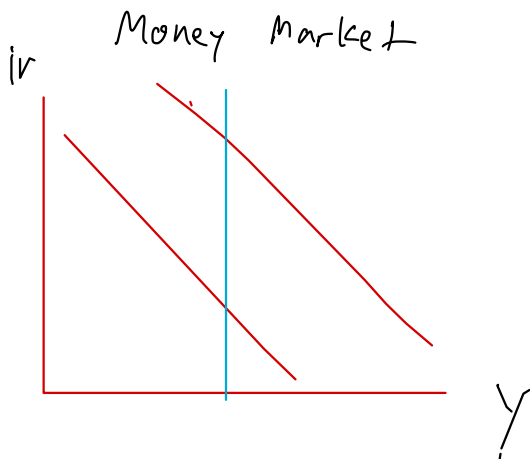
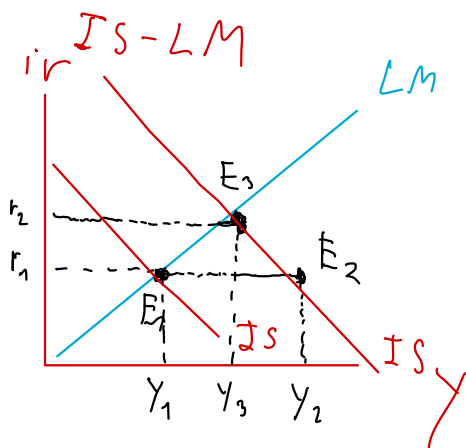
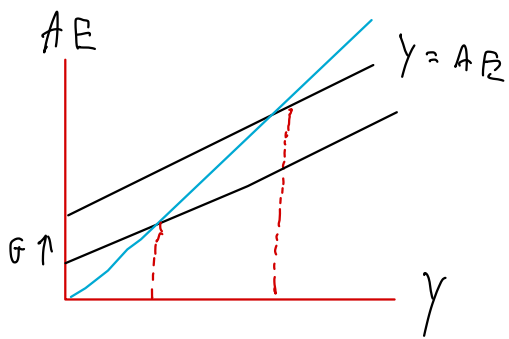
Note that L_0 is **autonomous money demand**, while other terms are the same as in the lecture slides.

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).

Q1 a.) When government increase their spending Y_1 increase to Y_2 (At E_2). However there are higher interest rate at E_3 so their investment fall. As a result Y_2 decrease to Y_3 .

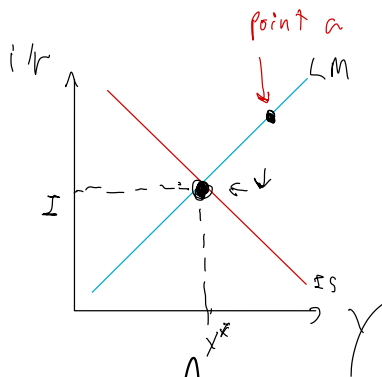
Good & Service



b.) Monetary policy

control to control money supply
because the central bank must
decrease or increase money supply
to control interest rate

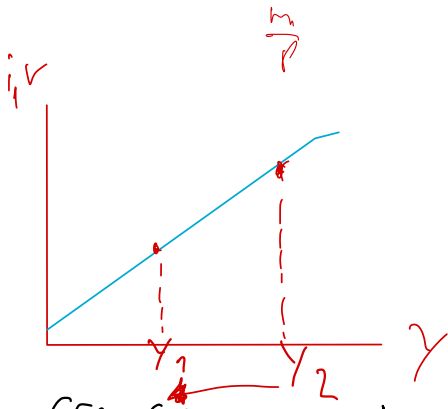
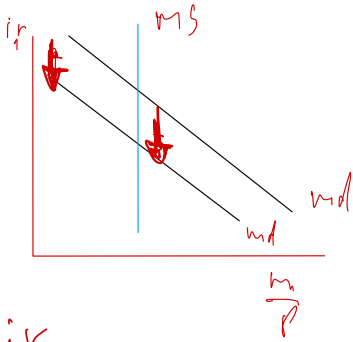
Q2.]



at point a good & service market is not in the equilibrium but money market is in the equilibrium, so we have to adjust the equilibrium by increase money supply, therefore the interest rate will be decrease and point a will be shift down then reach the equilibrium firm should be produce less so investment will be decrease so point a will be shift left to the equilibrium.

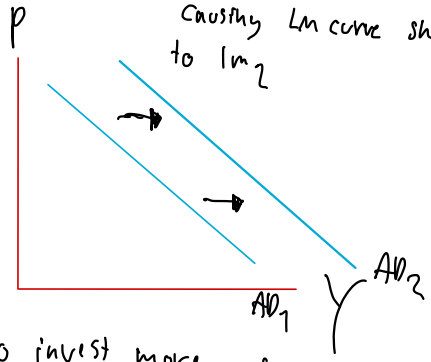
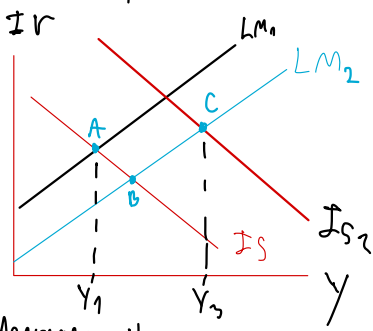
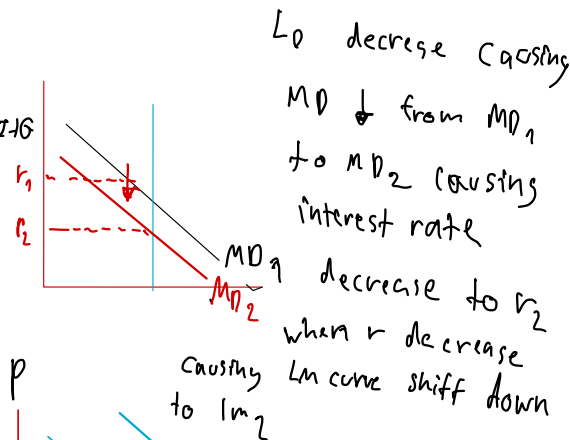
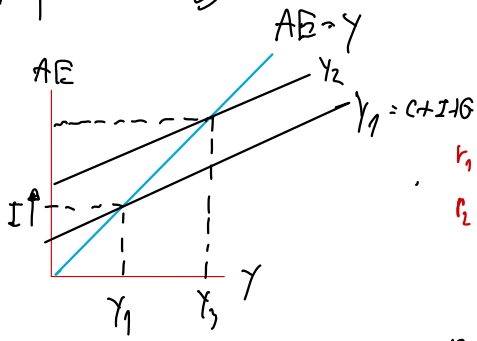
Q.3) a) LM curve

L_0 is sensitive
of money demand
change in income
and output
hence L_0 fall
causing money demand
curve decrease



causing interest rate decrease
so the point LM curve will move
down along the curve as
a result output will be decrease

Q 3) L



Lo decrease causing
 $MD \downarrow$ from MD_1
to MD_2 causing
interest rate
decrease to r_2
when r decrease
 LM curve shift down
causing
to LM_2

When r decrease it encourage investor to invest more so
 I increase causing Keynesian cross Y_1 shift up to Y_2

So y increase from Y_1 to Y_2 so the IS curve will
shift right to IS_2 and equilibrium at point C
as a result output will increase from Y_1 to Y_3
so the AD curve shift right