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## Final Exam Quiz

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

แปล ผมจดไว้แล้วนะครับว่าตอนมิตเทอมใครลอกของใคร ครั้งนี้ขอเตือนเลยว่าผมไม่ยกให้แล้วนะครับ

ผมต้องลงทะเบียนไม่ทันต่อไปคงไม่มีใครอยากซื้อสิทธิ์

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

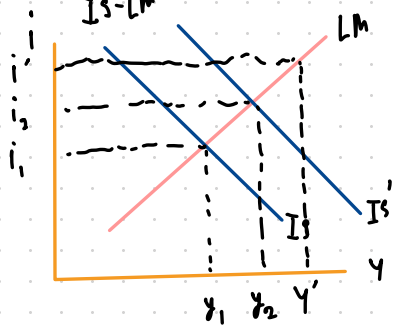
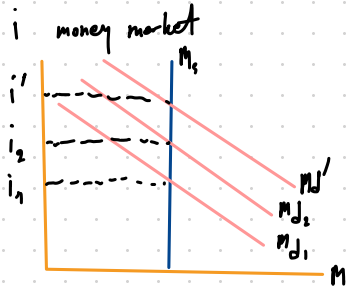
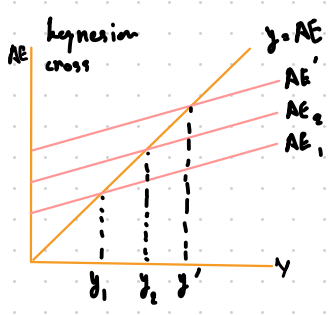
Assume that the liquidity preference function (real money demand) is given by the  $L(Y, i) = L_0 + L_Y Y - L_i i$ .

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.**

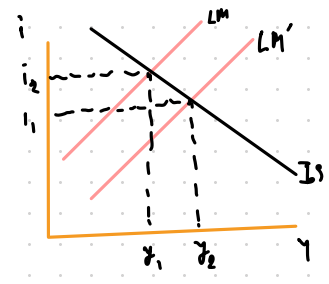
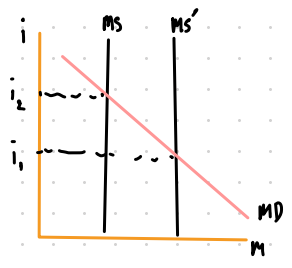
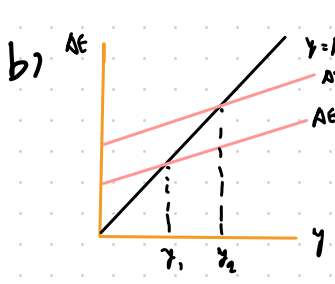
- Give ONE reason why this may happen.
- Show and briefly explain the effect of the fall in  $L_0$  on the 4 diagrams (Keynesian Cross, Money Market, IS-LM, AD).

1)



- 2) 1) GM:  $G \uparrow \rightarrow AE \uparrow \rightarrow Y \uparrow$   
 2) MM:  $Y \uparrow \rightarrow M_d \uparrow \rightarrow i \uparrow$   
 3) GM:  $i \uparrow \rightarrow I \downarrow \rightarrow AE \downarrow \rightarrow Y \downarrow$

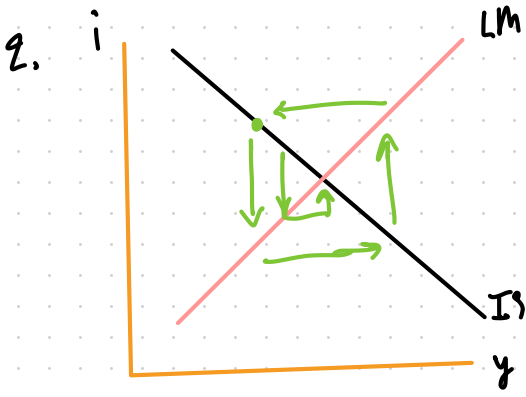
higher interest rate discourages investment which will make output fall. this create new equilibrium (green point)



Expansionary monetary policy

- MM:  $M \uparrow \rightarrow i \downarrow$   
 GM:  $i \downarrow \rightarrow I \uparrow \rightarrow AE \uparrow \rightarrow Y \uparrow$

As  $Y$  increase equal to AE new equilibrium has higher output but low interest rate.



$MM: Y \downarrow \rightarrow M_d \downarrow \rightarrow i \downarrow$   
 $GM: i \downarrow \rightarrow I \uparrow \rightarrow Y \uparrow$   
 $GM: Y < AE \rightarrow Y \uparrow$   
 $MM: Y \uparrow \rightarrow M_d \uparrow \rightarrow i \uparrow$   
 $GM: i \uparrow \rightarrow I \downarrow \rightarrow Y \downarrow$

2. 2. change in money demand !

