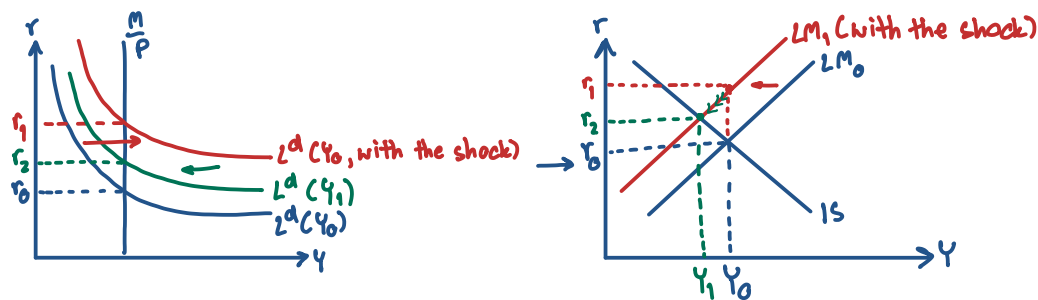




Group10(new)
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a) After the shock, people would like to hold more money. Then, demand for money (L_d) increase for all level of income (Y); L_d shift to the right. Therefore, interest rate rise up from r_0 to r_1 . LM shift to the left interest rate increase for all level of Y from r_0 to r_1 . Since, interest rate increase; then, consumption and investment fall. Then, it lead to the deduction of output (Y). Due to that Y decrease L_d shift to the left, therefore interest rate decrease from r_1 to r_2 . Then the interest rate decrease from r_1 to r_2 move along the LM curve.

b) Since the lower output and higher interest rate, it implies that investment is lower. Therefore the unemployment rate is higher as well.