

EE312 (1/2020 Section 046401): IS-LM AD, Labour Demand

PART 1. (54 marks, 6 each) Multiple choices. DAE model, ISLM model and AD. Please choose the correct answer by **circling** the choice.

- Suppose government expenditure increases, how does this situation affect the ISLM model?
 a. IS shifts to the right b. IS shifts to the left c. LM shifts to the right d. LM shifts to the left e. no correct answer given
- Suppose tax increases, how does this situation affect the ISLM model?
 a. IS shifts to the right b. IS shifts to the left c. LM shifts to the right d. LM shifts to the left e. no correct answer given
- Suppose interest rate remains constant. Government expenditure increases, output increases from Y_1 to Y_2 . What is $Y_1 Y_2$?
 a. the multiplier effect b. the crowding-out effect c. the price effect
 d. the net effect of the multiplier effect and the crowding out effect e. no correct answer given
- In the ISLM model, interest rate is not constant. When the government expenditure increases, output increases from Y_1 to Y_2 . What is $Y_1 Y_2$?
 a. the multiplier effect b. the crowding-out effect c. the price effect
 d. the net effect of the multiplier effect and the crowding out effect e. no correct answer given
- Suppose money supply increases, how does this situation affect the ISLM model?
 a. IS shifts to the right b. IS shifts to the left c. LM shifts to the right d. LM shifts to the left e. no correct answer given
- Suppose Price level increases, how does this situation affect the ISLM model?
 a. IS shifts to the right b. IS shifts to the left c. LM shifts to the right d. LM shifts to the left e. no correct answer given
- [ISLM model] Consider two economies that are identical, with the exception that one has a high marginal propensity to consume (MPC) and one has a low MPC. If the money supply is increased by the same amount in each economy, the high MPC economy will experience
 a. A larger increase in output and a smaller decrease in the interest rate. b. A smaller increase in output and a smaller decrease in the interest rate.
 c. A larger increase in output and a larger decrease in the interest rate. d. A smaller increase in output and a larger decrease in the interest rate.
 d. None of above.
- Suppose Price level increases, how does this situation affect the AD-AS?
 a. AS shifts to the right b. AS shifts to the left c. AD shifts to the right d. AD shifts to the left e. no correct answer given
- Suppose Government Expenditure increases, how does this situation affect the AD-AS?
 a. AS shifts to the right b. AS shifts to the left c. AD shifts to the right d. AD shifts to the left e. no correct answer given

PART 2. (24 marks, 6 each) Multiple choices. Consider labor demand/labor supply as a function of "nominal wage". The horizontal axis gives the quantity of labour employed and the vertical axis the nominal wage per unit of labour.

- Suppose price level increases. What is the effect on labor demand curve as a function of nominal wage?
 a. Nd shifts to the left b. Nd shifts to the right c. Nd remains the same (move along) d. No correct answer given
- Suppose nominal wage increases. What is the effect on labor demand curve as a function of nominal wage?
 a. Nd shifts to the left b. Nd shifts to the right c. Nd remains the same (move along) d. No correct answer given
- Suppose capital stock increases. What is the effect on labor demand curve as a function of nominal wage?
 a. Nd shifts to the left b. Nd shifts to the right c. Nd remains the same (move along) d. No correct answer given
- Suppose total factor productivity decreases. What is the effect on labor demand curve as a function of nominal wage?
 a. Nd shifts to the left b. Nd shifts to the right c. Nd remains the same (move along) d. No correct answer given

PART 3. (22 marks, 11 each) Answer the following question.

- Please write down profit the real productivity rule for the firm's profit maximization.

..... $W = MPN$, real wage = marginal product of labor, $\frac{W}{P} = MPN$

- Please write down profit the nominal productivity rule for the firm's profit maximization.

..... $W = MPN \times P$, $W = VMPN$, nominal wage = value of marginal product of labour

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 - IS shifts to the right
 - IS shifts to the left
 - LM shifts to the right**
 - LM shifts to the left
 - no correct answer given
- Suppose Price level increases, how does this situation affect the ISLM model?
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 - None of above.
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- Suppose tax increases, how does this situation affect the ISLM model?
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 - the crowding-out effect
 - the price effect
 - the net effect of the multiplier effect and the crowding out effect
 - no correct answer given
- In the ISLM model, interest rate is not constant. When the government expenditure increases, output increases from Y_1 to Y_3 . What is $Y_1 Y_3$?
 - the multiplier effect
 - the crowding-out effect
 - the price effect
 - the net effect of the multiplier effect and the crowding out effect**
 - no correct answer given
- Suppose Price level increases, how does this situation affect the AD-AS?
 - AS shifts to the right
 - AS shifts to the left
 - AD shifts to the right
 - AD shifts to the left
 - no correct answer given**
- Suppose Government Expenditure increases, how does this situation affect the AD-AS?
 - AS shifts to the right
 - AS shifts to the left
 - AD shifts to the right**
 - AD shifts to the left
 - no correct answer given

PART 2. (24 marks, 6 each) Multiple choices. Consider labor demand/labor supply as a function of "nominal wage". The horizontal axis gives the quantity of labour employed and the vertical axis the nominal wage per unit of labour.

- Suppose capital stock decreases. What is the effect on labor demand curve as a function of nominal wage?
 - Nd shifts to the left**
 - Nd shifts to the right
 - Nd remains the same (move along)
 - No correct answer given
- Suppose total factor productivity increases. What is the effect on labor demand curve as a function of nominal wage?
 - Nd shifts to the left
 - Nd shifts to the right**
 - Nd remains the same (move along)
 - No correct answer given
- Suppose price level decreases. What is the effect on labor demand curve as a function of nominal wage?
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 - Nd shifts to the left
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PART 3. (22 marks, 11 each) Answer the following question.

- Please write down profit the nominal productivity rule for the firm's profit maximization.
 $W = MPN \times P$, $W = VMPN$, **nominal wage = value of marginal product of labour**
- Please write down profit the real productivity rule for the firm's profit maximization.
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- Suppose tax increases, how does this situation affect the ISLM model?
 - LM shifts to the right
 - LM shifts to the left
 - IS shifts to the right
 - IS shifts to the left**
 - no correct answer given
- Suppose interest rate remains constant. Government expenditure increases, output increases from Y_1 to Y_1' . What is $Y_1 Y_1'$?
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 - A larger increase in output and a larger decrease in the interest rate.
 - A larger increase in output and a smaller decrease in the interest rate.**
 - No correct answer given.
- Suppose Price level increases, how does this situation affect the AD-AS?
 - AD shifts to the right
 - AD shifts to the left
 - AS shifts to the right
 - AS shifts to the left
 - no correct answer given**
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