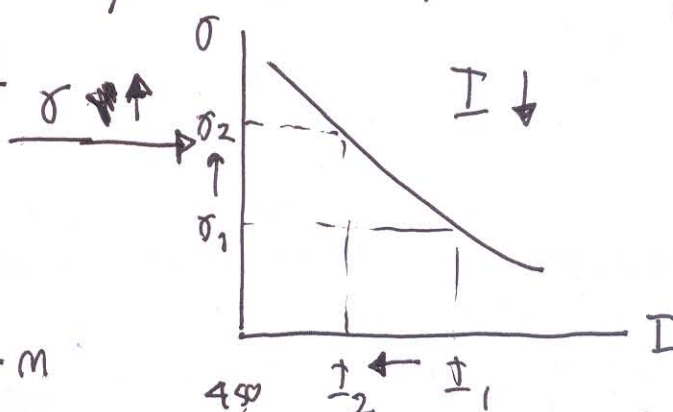
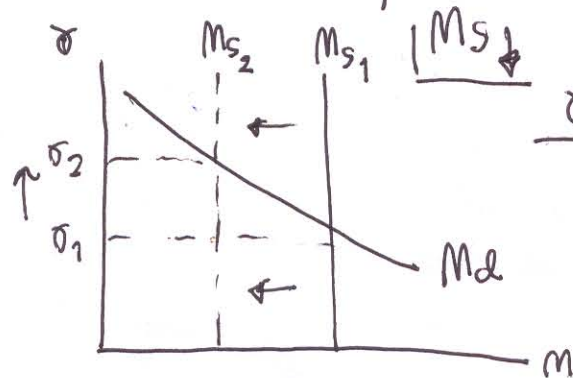
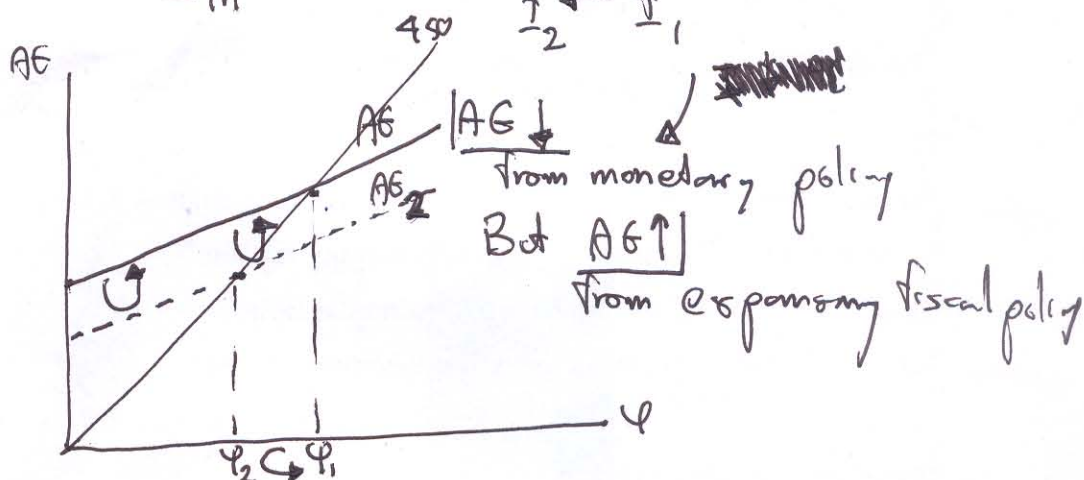


HW Ch.12

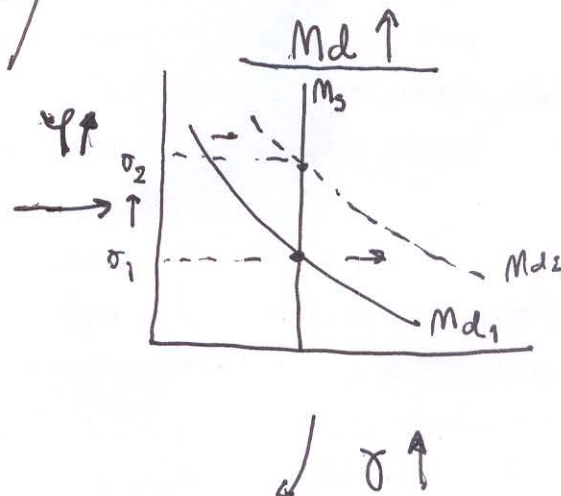
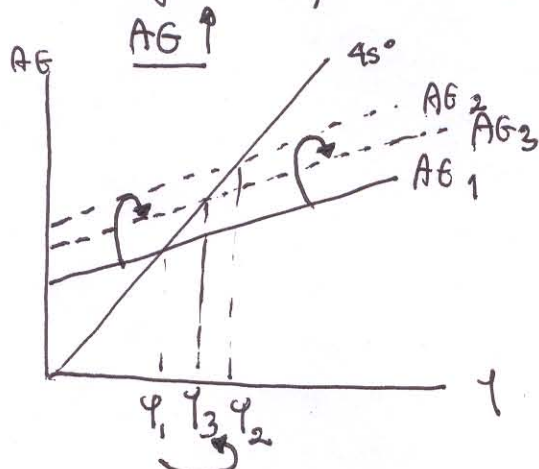
Q5. → a) Contractionary Monet. Policy * Expansionary Fiscal Policy



* Resulting effect on ψ is ambiguous
But r has increased.



b) Expansionary fiscal policy

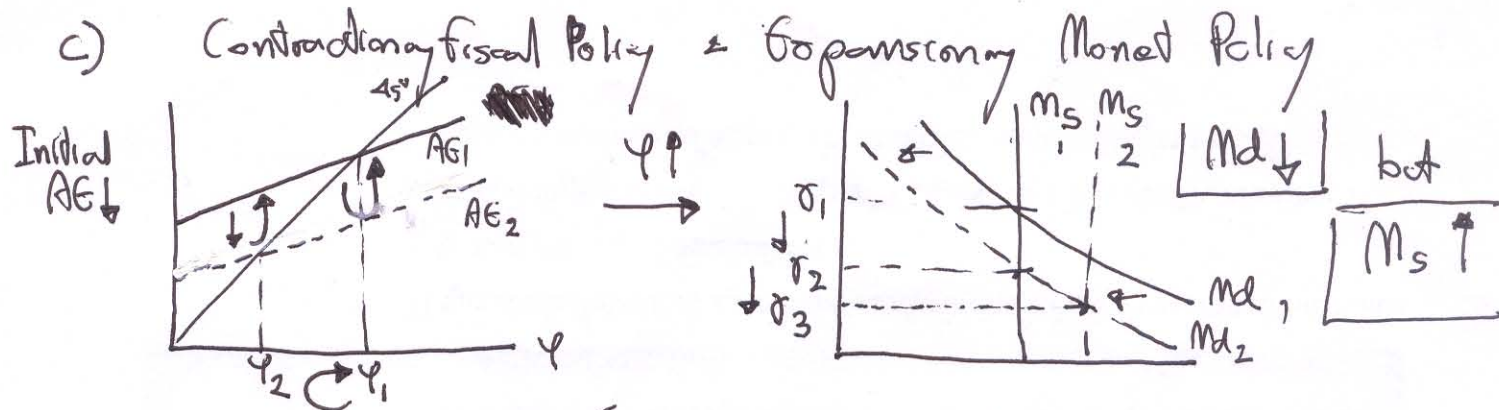


* Crowding Out effect occurs

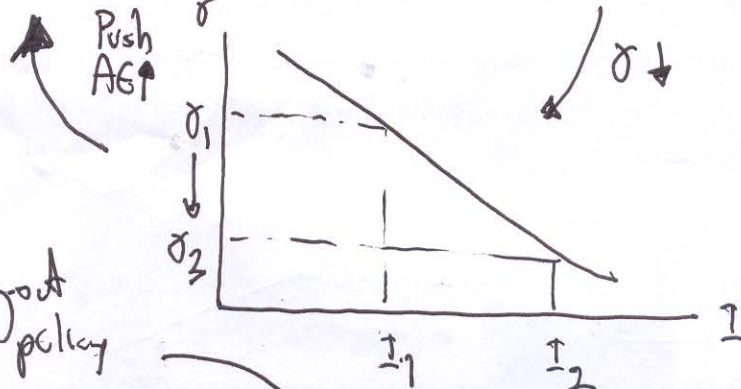
AG ↓ ψ ↓
But less than

initial → So, in the end, ψ ↑

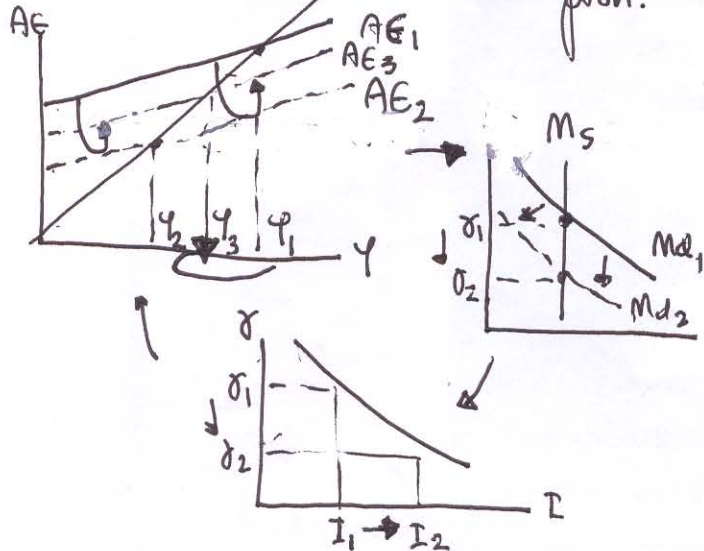
c) Contractionary Fiscal Policy = Expansionary Monet Policy



Change in I
will be large
due to combined
effect of crowding-out
effect and monet. policy



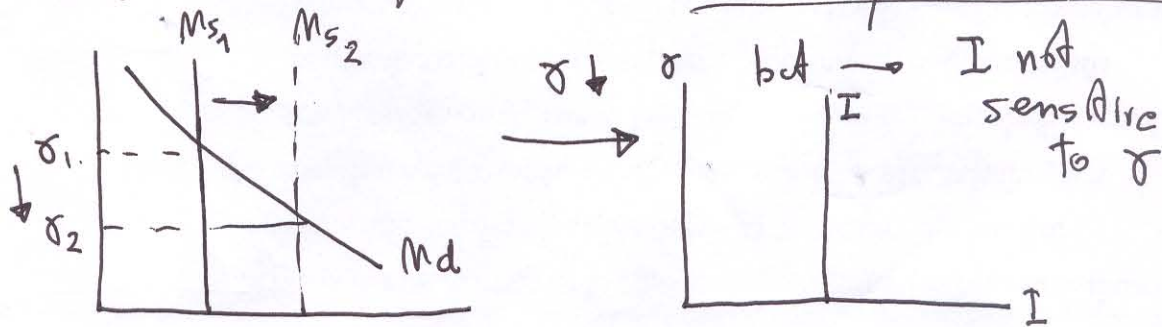
d) Reduction in Consumption.

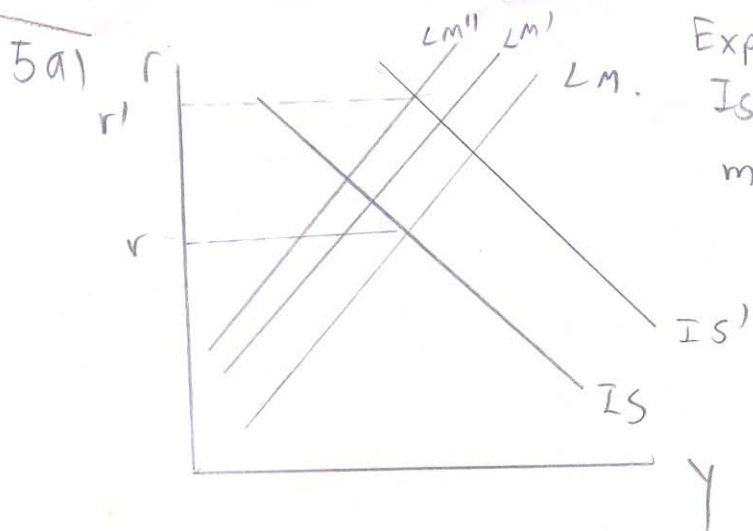


This means there may
in the end be no change
in Y

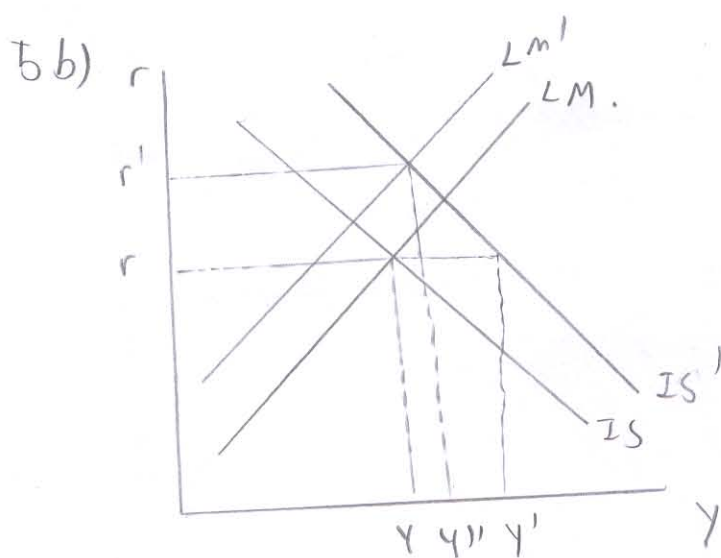
some crowding-out
effect offsetting
the initial change in AG
caused by ↓ C

e) Expansionary Monet. Policy → but the sensitivity of I to σ is low

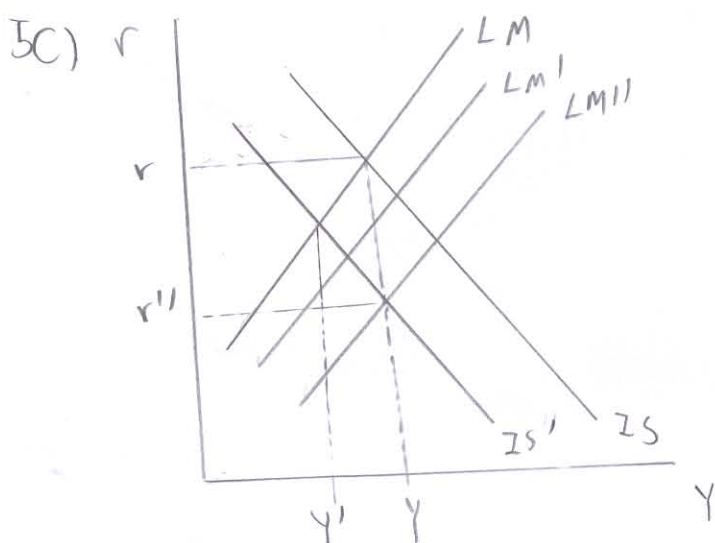




Expansionary fiscal policy make
IS shift to the right from IS to IS'
making Y to increase resulting
in increasing r in md
making LM to shift to
the left from LM to LM'
Then contractionary monetary
policy make interest to increase
for the r so LM shift to the
left further from LM' to LM''
resulting in increase in r
and change in Y is ambiguous

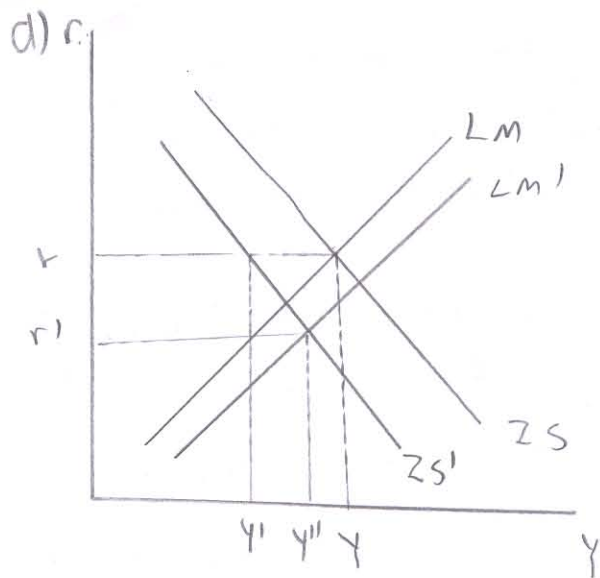


Expansionary fiscal policy make
IS shift to the right from IS to IS'
making Y to increase from Y
to Y' resulting in increase in md
making LM to shift to the left
from LM to LM' . Some have
higher output from Y to Y'
and higher interest rate from r to r'

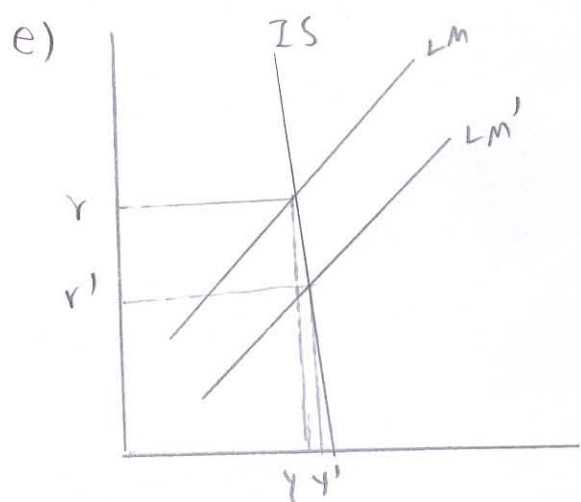


Contractionary fiscal policy make
 IS to shift to the left from IS to IS'
resulting in decrease in Y
making md to shift to the
left which make LM to shift
to the right from LM to LM'

The Expansionary monetary policy
make interest rate to decrease
further so LM shift to the right further to LM''
resulting in decrease in r and change in Y is ambiguous



Reduction in consumption make IS to shift to the left from IS to IS' making Y to decrease from Y to Y' making m_d to decrease which make interest rate to decrease making LM to shift rightward from LM to LM' resulting in decrease in output from Y to Y' and decrease in interest rate r to r'



Expansionary monetary policy make LM to shift to the right from LM to LM' . From decreasing in interest rate from r to r' investment do not change much as the sensitivity of investment to interest rate is low, making output to increase just a little from Y to Y' or output can be totally the same if investment is perfectly inelastic to interest rate.

Q6) - ~~Fed~~ Fed keep the interest rate constant.

a) Investment increases. $\rightarrow Y \uparrow \rightarrow Md \uparrow$

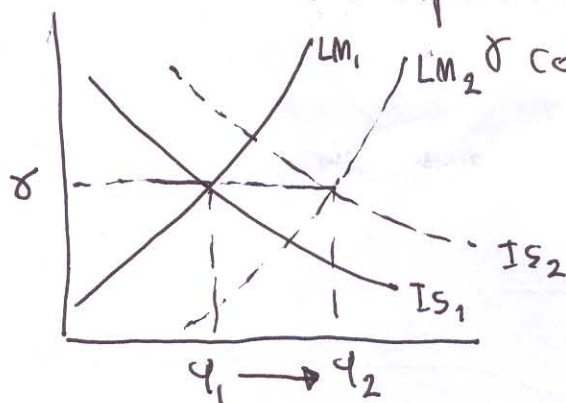
fed needs to also expand MS to keep r constant.

Use IS-LM

$\rightarrow$ rise in $I \rightarrow$ IS shift right

fed expand MS to keep

r constant $\rightarrow$ LM shift right.



with $Y \uparrow$

$C \uparrow$

$\pm$ initial rise in I
means S will also rise.

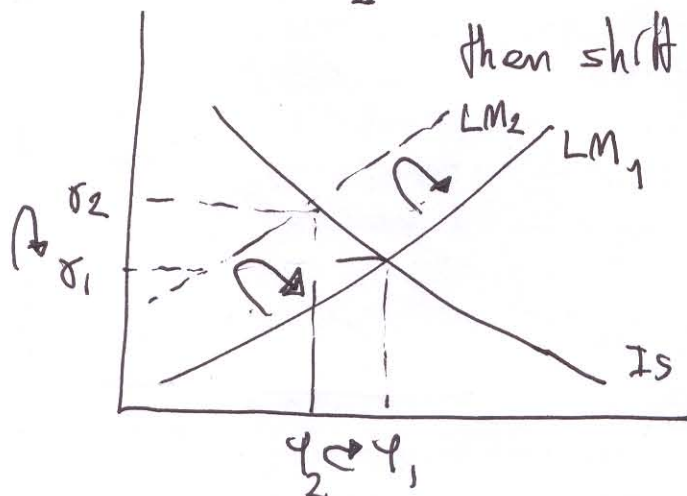
b) Money Supply $\downarrow \rightarrow r \uparrow$

fed needs to expand MS $\rightarrow$

Use IS-LM

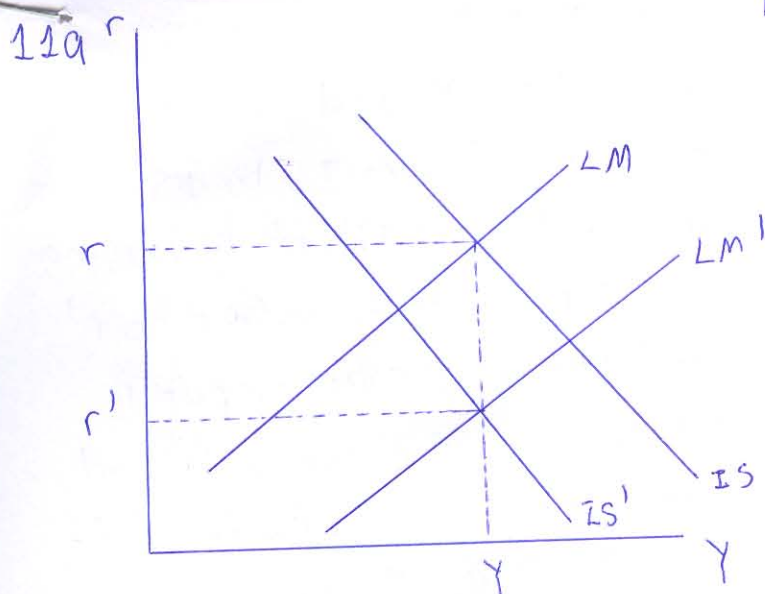
~~LM~~ LM shift to the left

then shift back to the original position

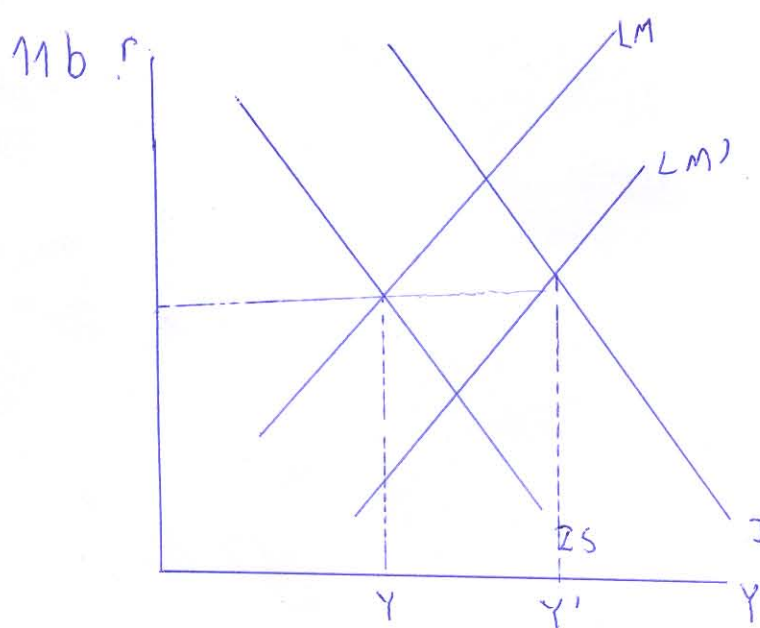


No change in Y

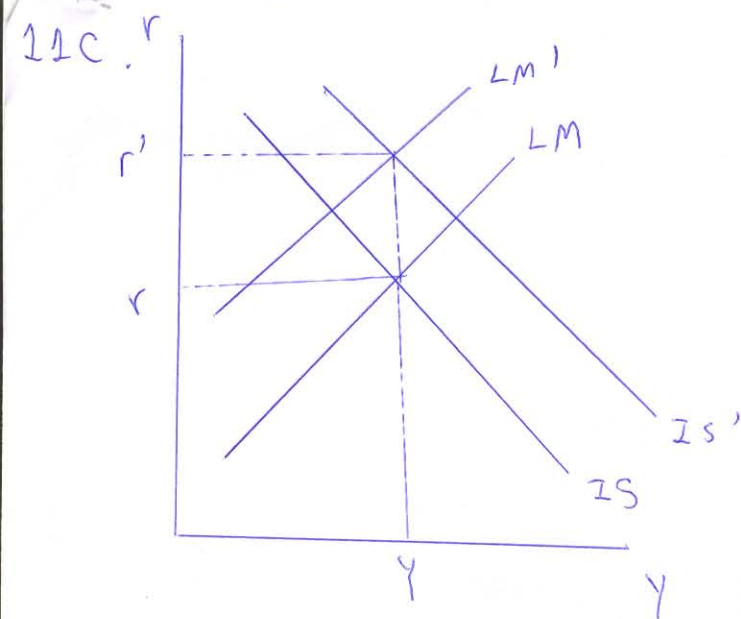
~~LM shift~~



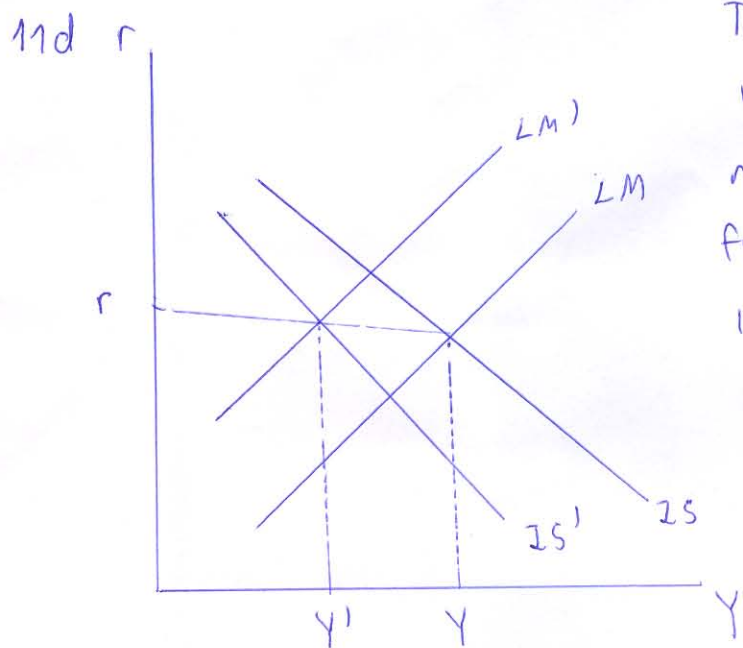
The policy mix that would result in this situation is contractionary fiscal policy and ~~expansionary~~ expansionary monetary policy. From the policy mix it will cause LM to shift to the right from LM to LM' and IS to shift to the left from IS to IS' , resulting in falling interest rate and the change in aggregate output is ~~indeterminate~~ indeterminate depending on relative magnitude shift of IS and LM .



The policy mix that would result in this situation is expansionary monetary policy and expansionary fiscal policy. From the policy mix it will cause LM to shift to the right from LM to LM' and IS to shift to the right from IS to IS' , resulting in increasing output and interest rate change is indeterminate depending on relative magnitude shift of IS and LM .



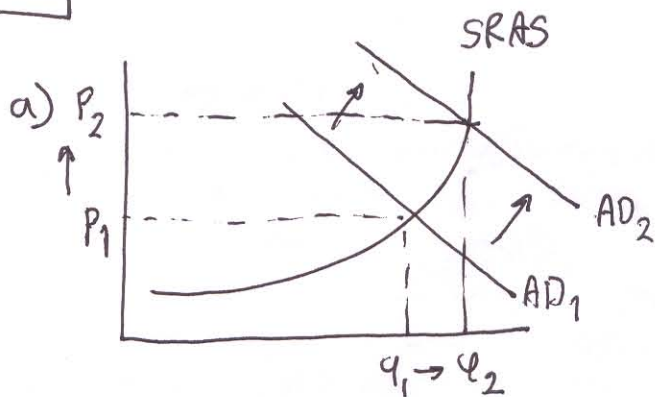
The policy mix that would result in this situation is contractionary monetary policy and expansionary fiscal policy. From the policy mix it will cause LM to shift to the left from LM to LM' and IS to shift to the right from IS to IS' , resulting in rising interest rate and the change in aggregate output is indeterminate depending on relative magnitude shift of IS and LM .



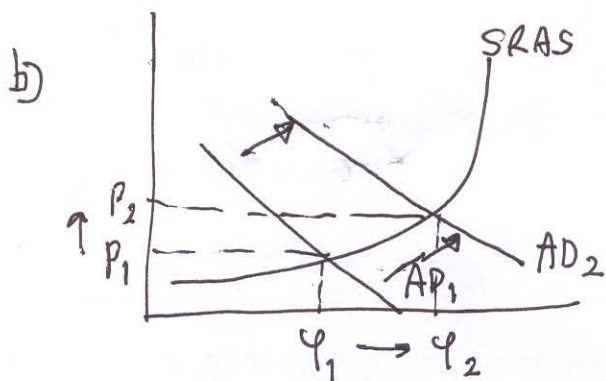
The policy mix that would result in this situation is contractionary monetary policy and contractionary fiscal policy. From the policy mix it will cause LM to shift to the left from LM to LM' and IS to shift to the left from IS to IS' , resulting in falling in aggregate output and change in interest rate is indeterminate depending on relative magnitude shift of IS and LM .

HW. Ch 13

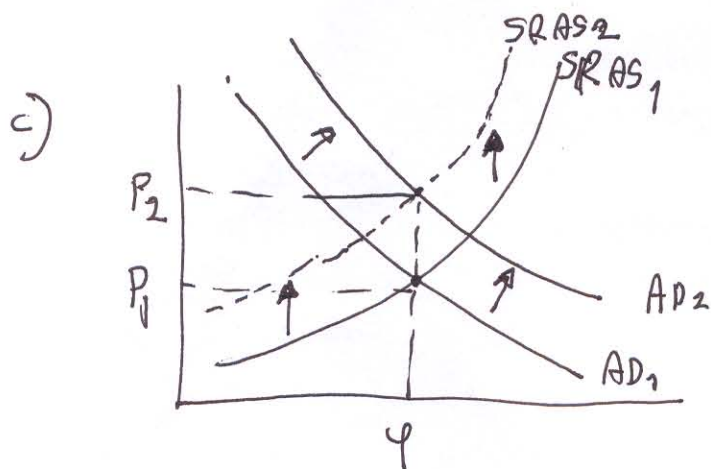
Q3



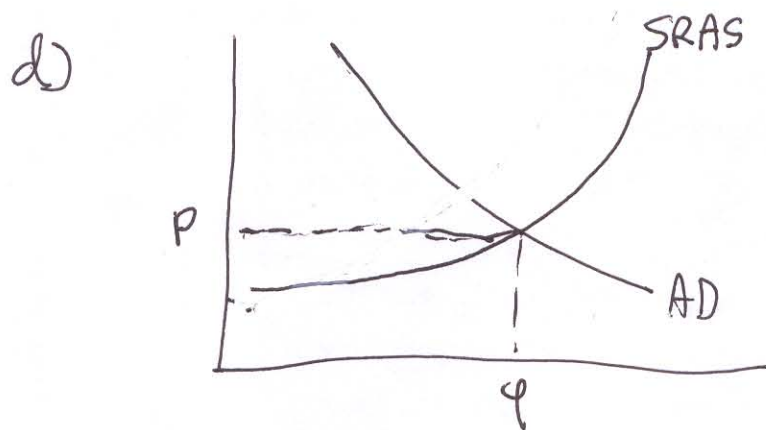
large $\uparrow$ in P
small $\uparrow$ in y



large $\uparrow$ in y
small $\uparrow$ in P



large $\uparrow$ in P
 y may fall, but less than if Fed did not expand M_s

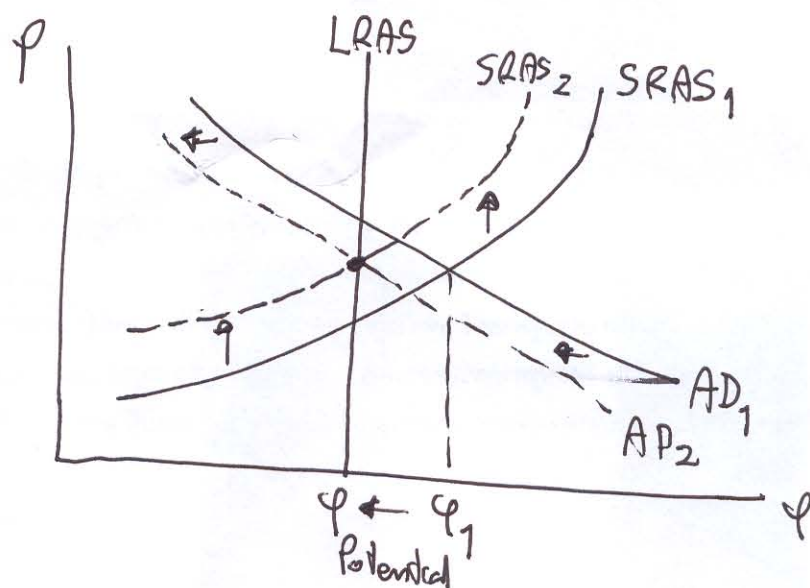


nothing change.

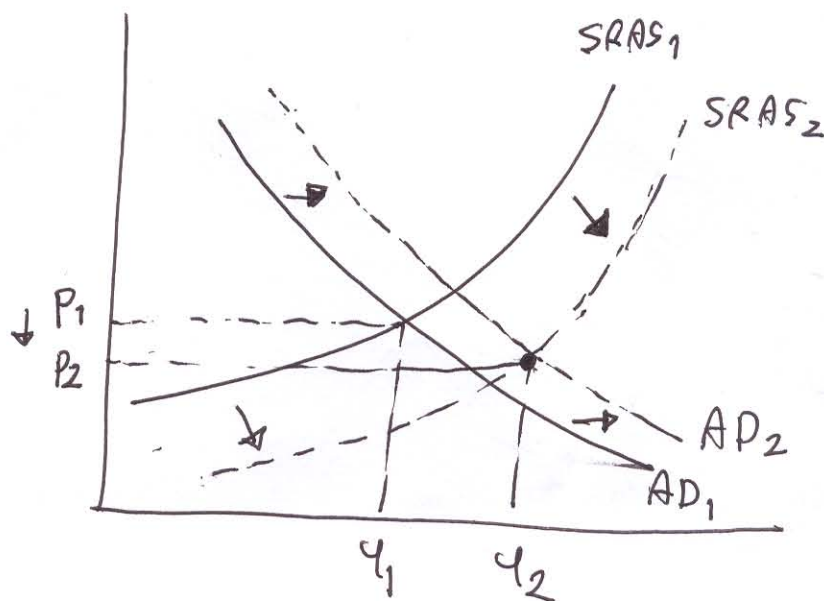
Q9

a) AD = SRAS cut at Y above $Y_{\text{potential}}$

AS starting to shift up due to the rise in price
This is added by fed late action to shift AD to the left, until Y is at $Y_{\text{potential}}$.

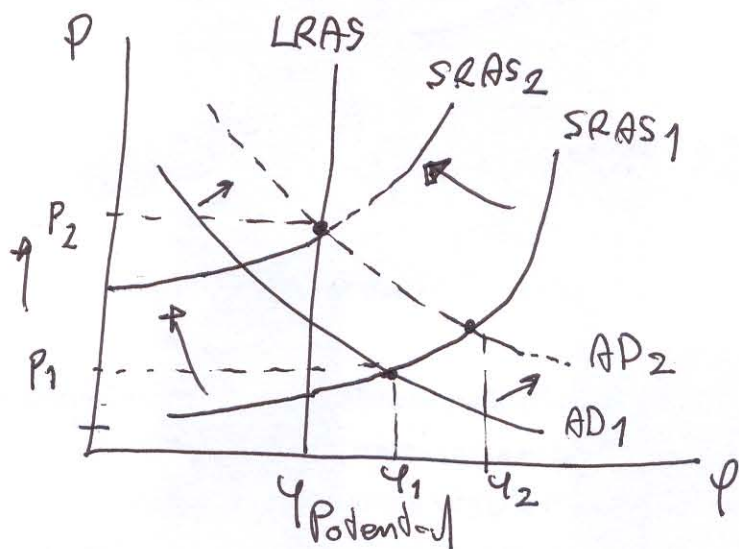


b) SRAS shift down. AD shift to the right, but not enough to prevent the price from falling

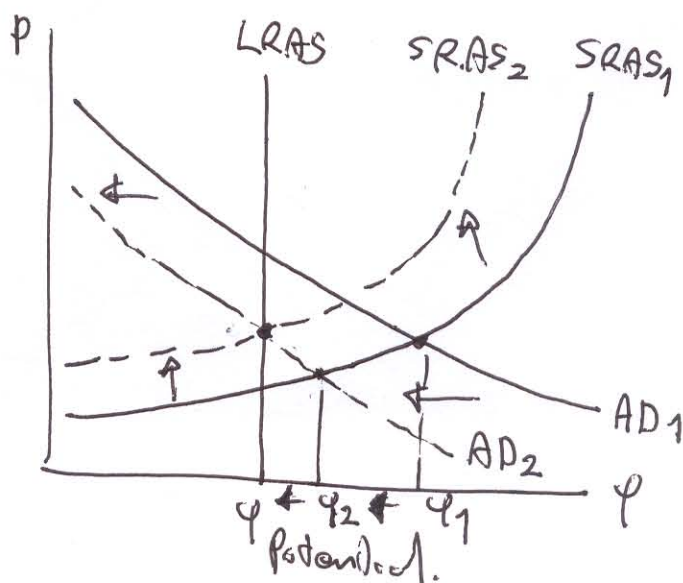


06]

- a) $SRAS \neq AD$ already intersect to the right of $\varphi_{potential}$.
 Increase in MS will cause AD to shift to the right.
 In the $L-R$, ~~the~~ price will rise to adjust the economy back at $\varphi_{potential}$.



- b) AD will shift to the left. If the shift is not enough, then in the $L-R$, ~~the~~ price will rise causing ~~the~~ $SRAS$ to shift up and taking φ back to $\varphi_{potential}$.



- c) The rise in oil-price means SRAS shift up.
Feb-expansion & money supply cause AD to shift to the right.

