HOMEWORK #1

EE 212 PRINCIPLES OF MACROECONOMICS

(SECTION046401)

DUE DATE: MARCH 29TH, 2012 (IN CLASS)

CAUTIONS: Your assignment must be <u>your own original work</u>. Cheating or plagiarism is a violation of Thammasat University's academic policies and it <u>will result in giving zero credit to your work</u>.

Part I: Adjustment of Aggregate Supply (AS) and Aggregate Demand (AD)

Instructions (for Part I):

In most of the cases--use positive-slope AS curve for explanation, except in some special cases regarding unemployment and LRAS.

Also please incorporate DAE curve where necessary.

You must explain the (1) interpretation (e.g. from the question, explain what make AD shifts to the right) and (2) the 2 steps i.e. shift graph and move along the curve as learned in class in detailed.

1. During 1979-80, the British government had extremely reduced the income tax, at the same time increased the excise tax and sale tax in order to maintain the budget revenue. However, the policy consequently gave rise to (1) inflation, and (2) unemployment. Explain these two phenomena using AD and SRAS. (18 points)
2. Explain impacts of the following phenomena on price level and national income using AD and SRAS. (18 points)
   2.1 OPEC reduces crude-oil price
   2.2 A reduction on government educational budget spending
   2.3 A devaluation of baht
   2.4 An increase in income tax
   2.5 A fall in export
   2.6 A budgetary surplus
3. Explain the following effects on SRAS and LRAS (show graphs) (24 points)
   3.1 An increase in government's weekly working hours from 35 to 40 hours.
   3.2 A flood in the northern part of Thailand that devastated agricultural produces
   3.3 One million baht per village given out by the government
   3.4 A sudden and extreme increase in oil price by the OPEC
   3.5 Many citizens lost the world-cup football's gambling
   3.6 An increase in mega-project investment for five consecutive years

Part II : Theoretical concept

4. Why Keynes's long-run aggregate supply curve is different from Classical's? How does this difference affect the long-run outcome of conducting fiscal expansion? (20 points)
5. Which of the following fiscal schemes are build-in stabilizers? Please explain. (20 points)
   5.1 Government's transfer : $R = R_0$
   5.2 Government's transfer : $R = R_0 + rY$
   5.3 Tax : $T_0 + tY$
   5.4 Tax : $T_0 - tY$