

Final Exam Quiz

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

ปล ผมจดไว้แล้วนะครับว่าตอนมิตเทอมใครลอกของใคร ครั้งนี้ขอเตือนเลยที่ผมไม่ยอมแล้วนะครับ

ผมต้องลงโทษ ไม่งั้นต่อไปคงไม่มีใครอยากซื้อสตั๊ด

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).

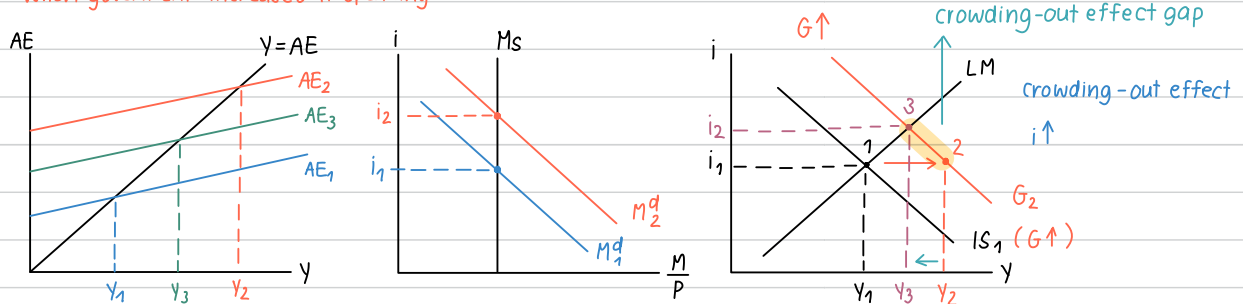
Question 1

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

a.) Crowding-out effect appeared when government increase spending but lead private sectors to discourage from investment. crowding-out effect will happened when government using fiscal policy.

When government increases its spending



When the government increases their spending it make demand in the economy rises up and firms produce more at the higher demand to get $Y=AE$. This increase output and income. When people have more income people will spend money so it will raises the money demand which raises the interest rate. Finally, the new equilibrium has higher output and higher interest rate.

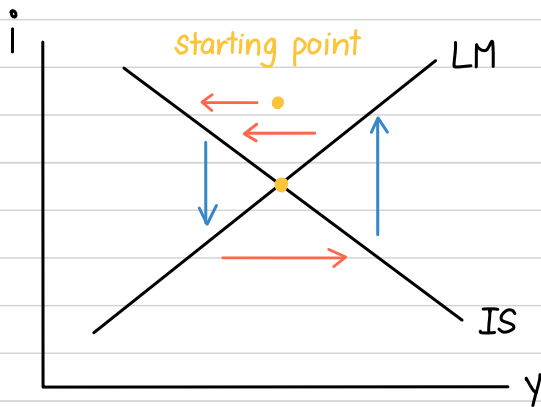
from Y_2 to Y_3 is crowding-out effect because Government spending push interest rate to rise up

b.) We will use expansionary fiscal policy to avoid the crowding-out effect because fiscal policy shift the IS curve and crowding-out effect make IS curve shift right, which caused by when government increases its spending, so fiscal policy can boost the economy.

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.



- 1) GM: $Y > AE \rightarrow Y \downarrow$
- 2) MM: $Y \downarrow \rightarrow Md \downarrow \rightarrow i \downarrow$
- 3) GM: $i \downarrow \rightarrow I \uparrow \rightarrow Y \uparrow$
- 4) MM: $Y \uparrow \rightarrow Md \uparrow \rightarrow i \uparrow$
- 5) GM: $i \uparrow \rightarrow I \downarrow \rightarrow Y \downarrow$

Starting point show that output is more than the Aggregate expenditure. First, I will adjust in goods and services market by produce less output. Second, when decreased production in output people will not want to buy more goods. This decreases the money demand. The decrease in money demand decreases the interest rate. Third, the lower interest rate make investment becomes more attractive. Firms increases investment. This raises demand in the economy. Firms produce more to supply at the higher demand. Fourth, the firms produce more to supply at the higher demand. This raises output and income in the economy. When people have more income, they want to buy more good. This increases the money demand. The increase in money demand increases the interest rate. Lastly, the higher interest rate, investment becomes not attractive. Firm decreases investment. The decreases demand in the economy. Firms produce less to supply at the lower demand. This will make the starting point adjust to the equilibrium.

Question 3

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

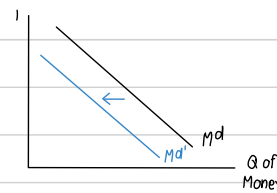
Note that L_0 is **autonomous money demand**, while other terms are the same as in the lecture slides.

Now suppose that L_0 falls.

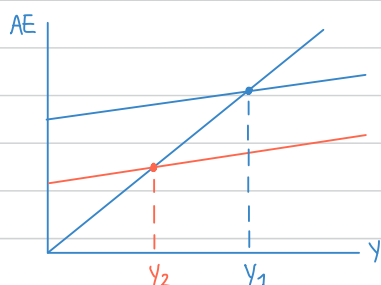
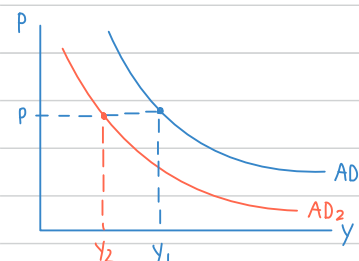
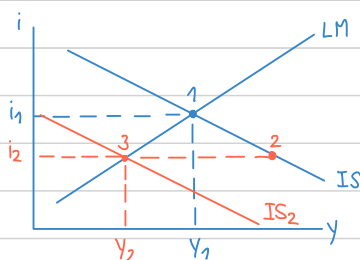
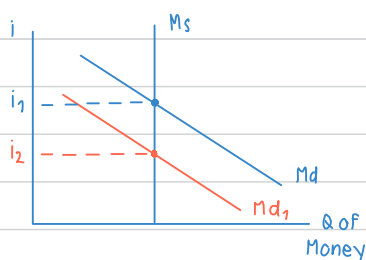
- Give ONE reason why this may happen.
- Show and briefly explain the effect of the fall in L_0 on the 4 diagrams (Keynesian Cross, Money Market, IS-LM, AD).

a) People prefer to hold less cash (due to credit/debit card and Mobile banking)

Money demand curve shift leftward from M^d to $M^{d'}$ because the "Preference" that make people holding less cash from their personal factors



b) L_0 fall it make money demand fall



When L_0 fall, it make money demand fall. When money demand fall. This decreases interest rate so we need to produce less to get in the equilibrium