Quiz EE212

Time allowed: 1 hour from 19.00 – 20.00

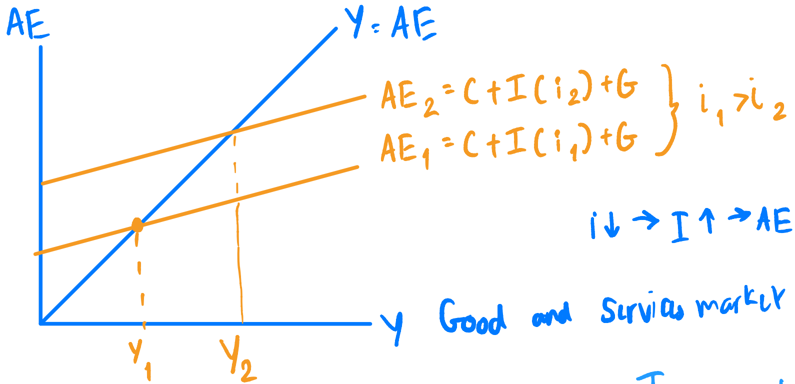
Submission time: 15 minutes

Latest submission by 20.15

Do not write too much. Brief explanation is sufficient.

1. Use TWO relevant diagrams to explain how the IS curve is derived from the goods market.
2. Use TWO relevant diagrams to explain how the LM curve is derived from the money market.
3. Use relevant diagrams to explain how the AD curve is derived from the IS-LM model.
4. Use relevant diagrams to explain how the SRAS curve is derived from the labor demand and the production function.

1



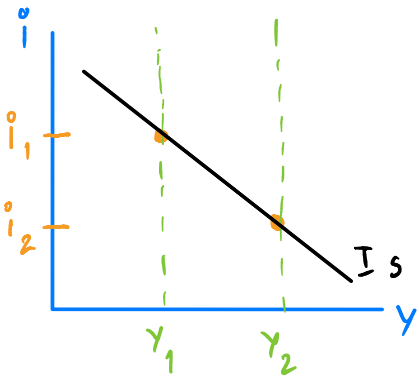
$i\downarrow \rightarrow I\uparrow \rightarrow AE\uparrow$

Good and Service market

IS relation:

$i\downarrow \rightarrow I\uparrow \rightarrow AE \rightarrow Y\uparrow$

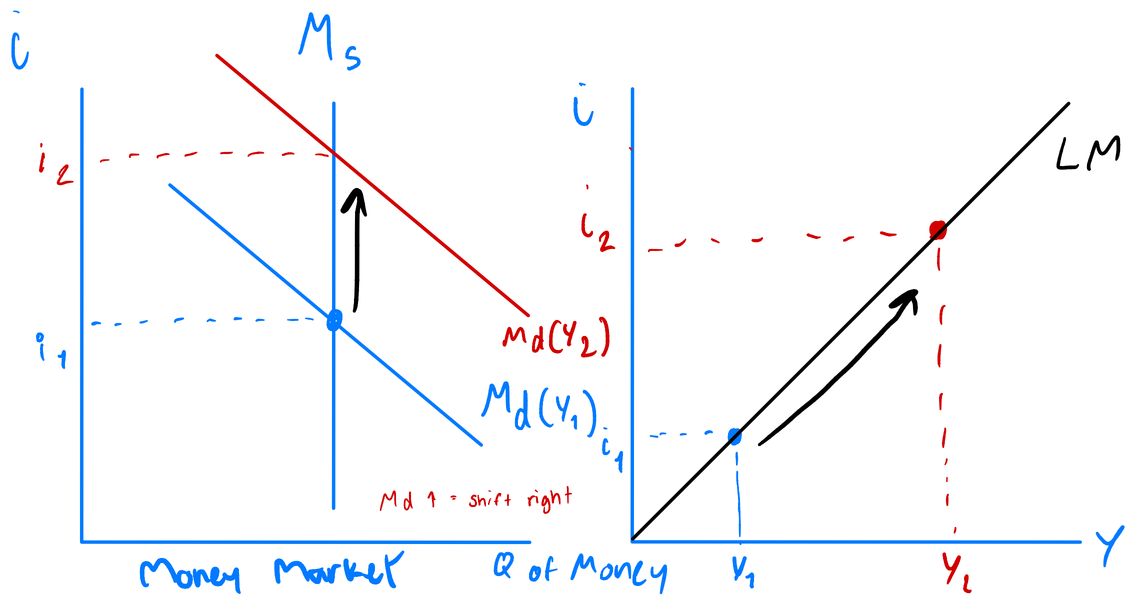
(negative relationship b/w i = y)



I depends on i

equilibrium condition: C+I+G

②



Positive relation

equilibrium condition: Md = Ms

Md: Real Money demand

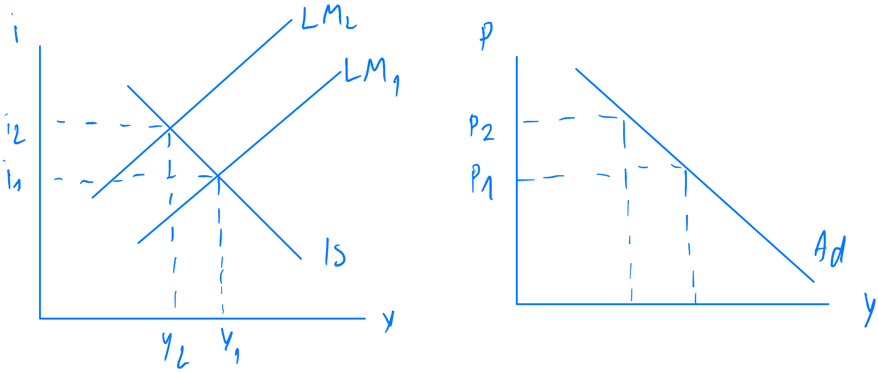
Ms = Real Money supply

The LM relation: when $Y \uparrow = Md \downarrow$

$i \uparrow = Md \downarrow$

when people have more income, people want to hold more money

3

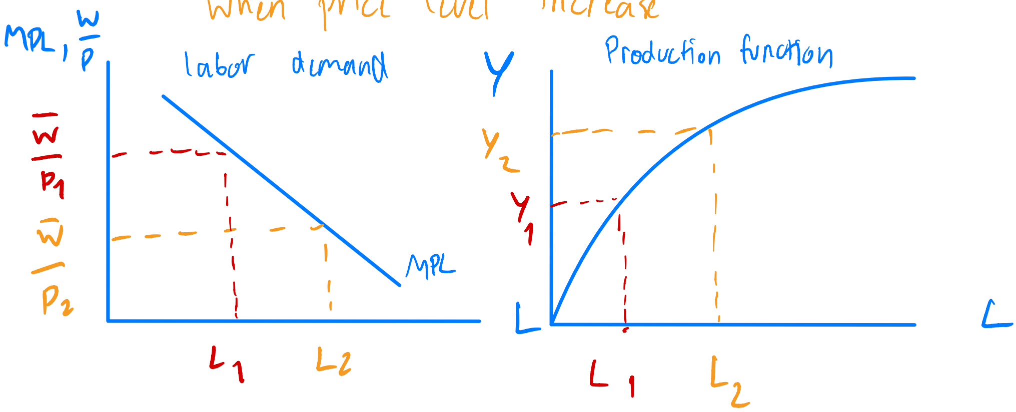


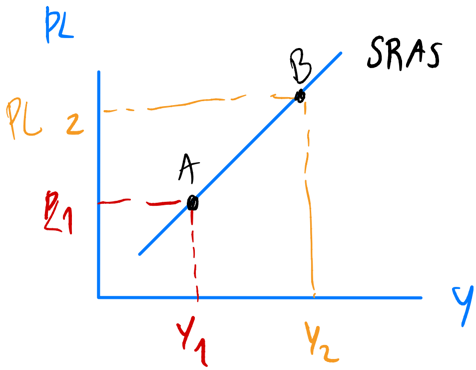
P ↑ → LM shift left → i ↑ → I ↓ → AE ↓ → Y ↓

Slope of AD is downward because P ↑ , Y ↓

④

When price level increase





So when Price level increase = output increase = made a movement in the SRAS from A to B

In the short-run model the nominal wage is sticky due to the labor contact So when the price level increase it make the real wage decrease → firm hire more labor then firm produce more output