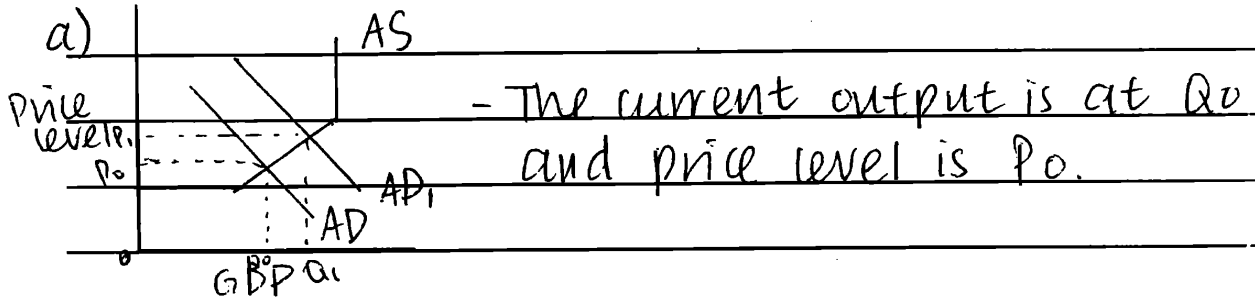
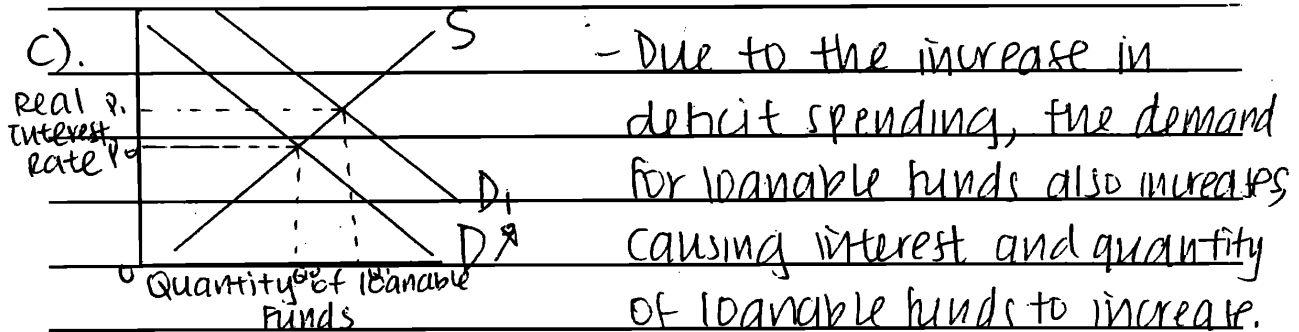


Write in the box the number of the question you are answering on this page as it is designated in the examination.



b) When government increases spending to achieve full-employment output, one of the components of AD ( $C + I + G + (x - m)$ ) will increase, causing aggregate demand to shift to the right (as labeled as  $AD_1$  in the above graph). As a result,  $P_0$  has shifted to  $P_1$ , and  $Q_0$  has shifted to  $Q_1$ . Both output and price level have increased.



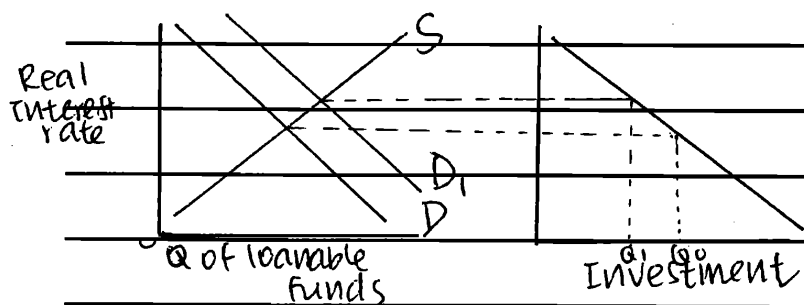
d) Since the interest rate of this country has increased, many foreigners would be attracted to invest in this country. As a result, the demand of this currency increases, and the international value of this currency will also increase.

# 1

Write in the box the number of the question you are answering on this page as it is designated in the examination.

e) As the international value of this currency increases, this country's goods will be relatively more expensive to other countries' goods. Thus, this country's exports will decrease and imports will increase. This will create a trade deficit as imports are greater than exports.

f) Although originally the government deficit spending is to increase aggregate demand, according to the loanable-funds market discussed in part c, real interest rates will also increase. As a result, investment will



decrease. In the long run, if net investment spending is continually

decreasing, then it means that the long-run growth will also decrease.