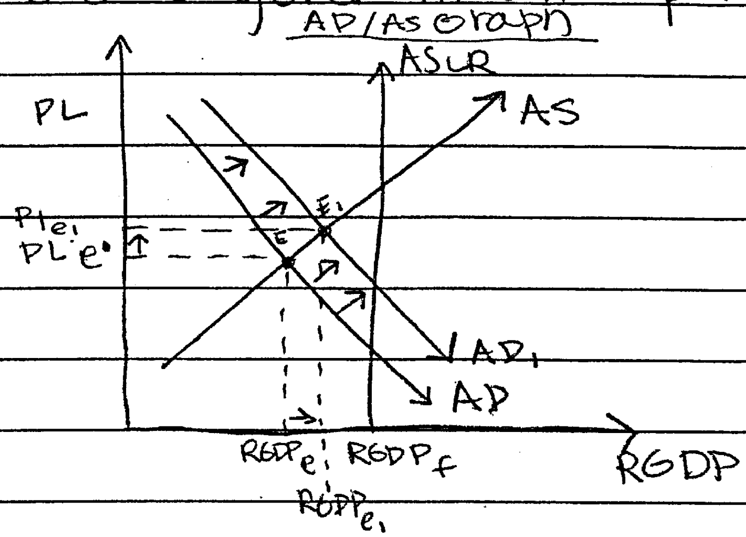
1MAC CLA.

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

1

a. increase government expenditures

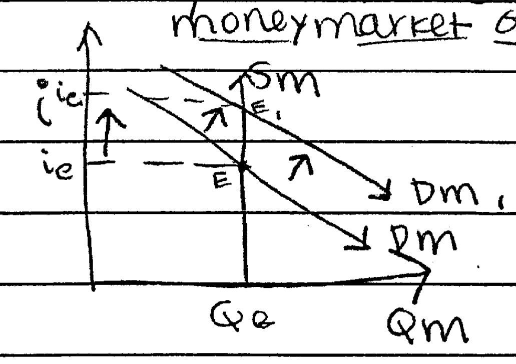
b.



(i) ↑G => ↑AD to AD_1 => ↑$RGDP_e$ to $RGDP_{e_1}$
SO ... output ↑

(ii) ↑G => ↑AD to AD_1 => ↑PL to PL_{e_1}
SO ... PL↑

c. With increased goverment expenditures the government will have deficit spending and need to borrow money, this increase in the demand for money will increase interest rates.



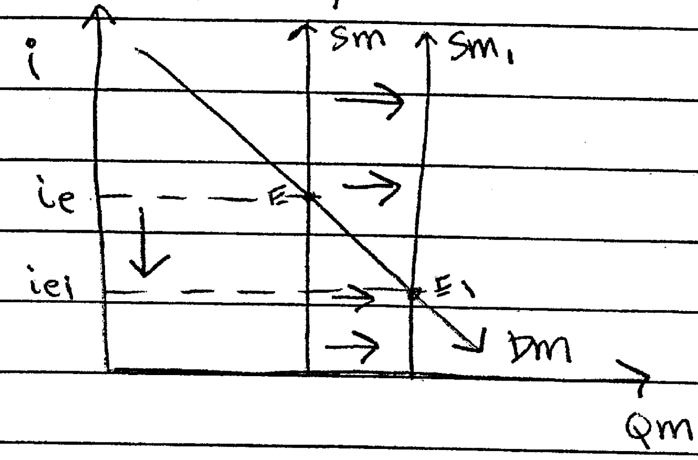
IMACCL A_2

1

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

d. The Federal Reserve can buy bonds.

e. Money Market

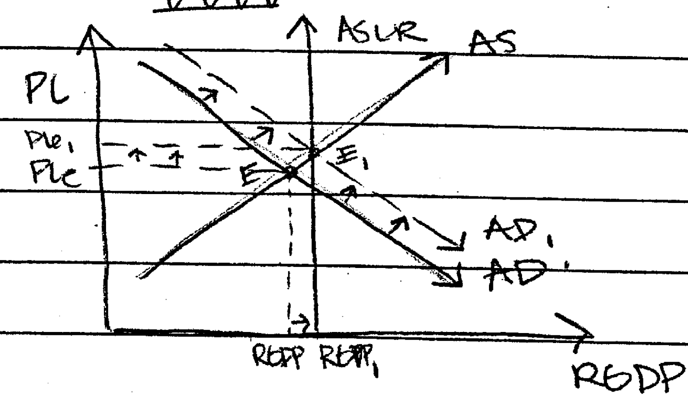


(i) ↑ Sm to Sm, => ↓ i to ie,

So ... Interest rates ↓

(ii)

AS/AD graph



↓ i => ↑ Ig => ↑ AD to AD, => ↑ RGDP to RGDP

So ... output ↑

(iii) ↓ i => ↑ Ig => ↑ AD to AD, => ↑ Pl to Ple,

So .. Price level ↑