【Macroeconomics】

Answer both Q1 and Q2. To answer,use blank sheets : one for Q1 and another for Q2.

Q1 Consider the IS−LM model in a closed economy, where C is consumption, Y is output, I is (private) investment, r is the interest rate, L is the demand for money, and M is money supply:

$C=0.8Y+60$ ......①

$I=56-500r$ ......②

$L=224+0.2Y-500r$ ......③

$M=300$ ......④

The level of output for full employment is equal to 500. The model has no international trade, no tax, and a constant price level.

(1) Derive the goods market equilibrium equation, i.e., the IS.

(2) Derive the equation representing asset markets equilibrium, i.e., the LM.

(3) Suppose that fiscal policy is implemented for full employment. Calculate the amount of the needed public investment (G).

(4) Suppose that monetary policy is implemented for full employment. Calculate the amount of the needed money supply.

(5) With regard to Cases (3) and (4), respectively, give a graphic representation of (the shift of) the IS and LM curves.

Q2 Explain the meaning of the following economic terms briefly.

(1) moral hazard
(2) monetary base
(3) purchasing power parity
(4) Paasche price index
(5) Okun's law
(6) Ricardian equivalence
(7) Pigou effect