**Macroeconomics IS-LM**

1. **True/False:**

( ) Reduce in the money supply shifts the LM curve upward to the left and increases investment.

( ) The IS curve is steeper, the smaller the multiplier and the autonomous interest rate sensitivity are.

( ) Increase in money supply moves the IS curve upwards.

( ) Proportional increases in government spendings or transfers have exactly the same impact on the IS curve.

( ) The tax rates in the model IS-LM do not affect the equilibrium income.

1. **Complete the incomplete statements:**
2. Such combinations of **……………** and **……………..** at which the **……………**expenditure equals the income create the IS curve.
3. IS curve has a **…………….** slope, because the increase in interest rates **……………….** planned investment spending and aggregate demand, which **…………….** the equilibrium income.
4. Demand for real money balances depends indirectly in proportion on **………………….** and directly in proportion on **……………….**.
5. The LM curve represents the equilibrium at **…………………….** and expresses all combinations of interest rate and income where the **……………..** for real money equals the **……………………..**.
6. The LM curve has a **…………………..**slope. With a **…………………..**, the increase of **……………** must be accompanied by an **…………** in the interest rate.
7. The IS-LM model extends a simple Keynesian model by an **………………….** that, together with fiscal policy, affects aggregate **………………………..**.

**3.**

**We have the following variables: Ca = 60 mld., G = 150 mld., Ia = 120 mld., Ta = 10 mld., t = 20 %, MPC = 0,8, M/P = 325 mld., k = 0,5, h = 22, b = 15**

1. **Determine the equilibrium of income and the equilibrium of interest rate in the IS-LM model.**

1. **How Y and i change if G increases to 190 billion?**

**c) Calculate the size of the crowding out effect and graphically represent the situation.**

**d) How much CB must raise M/P to bring the equilibrium of interest rate back to its pre-fiscal level?**

**Suppose the following variables characterize the structure of a particular economy: Ca=100, IA=100, G=100, Ta=30, TR=10,M/P=300, c=0,8, t=0,2 b=10, k=0,5 h=30.**

1. **What is the value of the multiplier?**
2. **What is the value of autonomous expenditures?**
3. **What is the equation of the curve IS?**
4. **What is the equation of the curve LM?**
5. **What is the equilibrium level of income?**
6. **What is the equilibrium level of interest rate?**

1. **What is the level of consumption in equilibrium?**

1. **Determine the amount of the state budget balance.**
2. **Determine the amount of money demand.**

**Suppose the government has decided to increase government spending by $ 30 billion. What will be the new "Y" and "i" equilibrium levels?**

**How much private investment will be crowded out of the economy as a result of rising interest rates?**

**How much does the central bank need to raise its money supply if it wants to keep the interest rate at its original level?**