

Tutorial 8: Money, the Interest Rate, and Output: Analysis and Policy

- 1) Graphically illustrate the impact of a decrease and increase in the interest rate on aggregate output. Summarize the relationship among changes in the rate of interest (r), the change in planned investment spending (I), its impact on the aggregate expenditure function (AE), and the multiplier effect on income (Y).
- 2) Graphically illustrate the relationship among income changes, the demand for money, and the changes in the rate of interest.
- 3) Summarize the effects of a contractionary fiscal policy upon output (Y), the demand for money (M^d), the rate of interest (r), and investment spending (I).
- 4) Summarize the effects of a contractionary monetary policy upon the rate of interest (r), investment spending (I), output and income (Y), and the demand for money (M^d).
- 5) Graphically illustrate and explain the effects of a reduction in the money supply on the equilibrium interest rate and equilibrium output.
- 6) Graphically illustrate and explain the effects of a reduction in government spending on the equilibrium interest rate and equilibrium output. Does any crowding-out take place when government spending falls?