Q03:

I. INTRODUCTION

The Invesment-Saving and Liquidity preference of money supply (IS-LM) represents a framework for understarding the interactions between the goods market and the money market. It helps us analyze how fiscal and monetary changes affect the macroeconomy. The model is also used to derive the aggregate demand curve, providing an overview of impacts of short term changes in demand. While application limited, provides useful insights.

II. IS-LM AS A STABILIZATION TOOL IN DEVELOPING ECONOMICS

interest
rate(λ)

LM

r^* ------

IS

y^*

Output
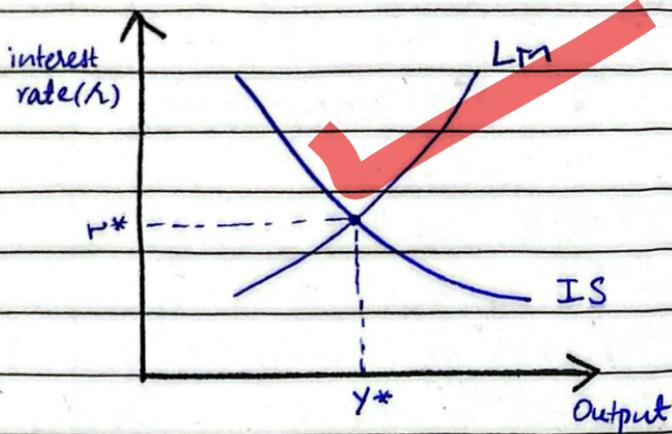
A. Goods Market Stability

(i) Stability by increasing taxation or reducing expenditure

The governments taxation policy and expenditure is integral to fiscal stability. Under low tax and high expenditure, the government faces fiscal deficit leading to instability. For stabilization of fiscal economy, the policy of higher taxation and lower government expenditure needs to be adopted.

i_1 ----
i_2 ----

LM

IS

IS'
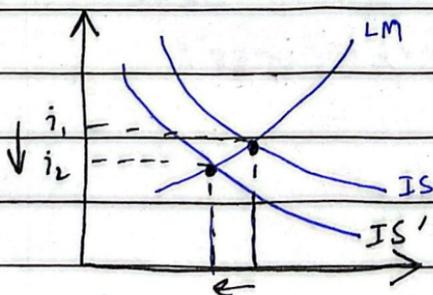
the IS curve shifts left, leading to lower interest rate, to drive future investment.

(ii) Dampening high consumption demand amid limited short term supply

The supply in short term remains limited. Amid rising demand, the economy faces pressure on prices, which leads to inflation and high interest rates. By inducing a shift in IS curve by dampening demand, the economy of developing nations can be stabilized.

B. MONEY MARKET

interest rate (↑)

Ms (money supply)

r*

M^d (money demand)

M*

Qm
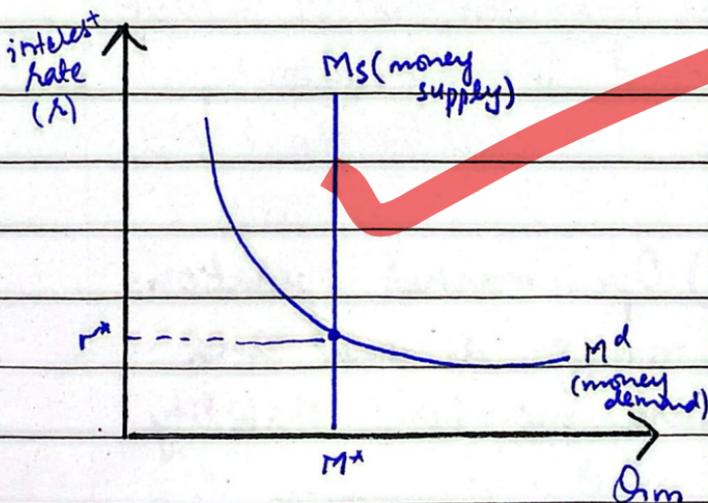
(i) Interest rate as a tool for stabilization

The interest rate is a monetary market tool, to reduce pressure in market. High interest rate cools demand for money and reduces inflationary pressure. The LM curve shifts upwards.
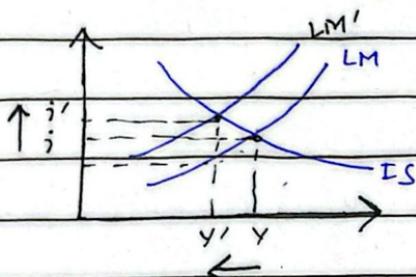
(ii) Money supply as a means of inducing growth

The money supply is also a tool for inducing growth as it a monetary expansion reduces interest rate and improves output, shifting LM curve downwards.

(iii) Open market operations to manage demand and ensure monetary stability

Open market operations like buying and selling of bonds,

currency supply and influx of assets by central bank is another tool for stabilization. Amid expansionary policy, money demand grows, inducing greater consumption. The **LM curve** shifts downwards, reducing interest rate and imposing growth.

III. COMPLEMENTING THE AD-AS ANALYSIS WITH IS-LM

The AS-AI Aggregate demand curve is derived from the IS-LM model.
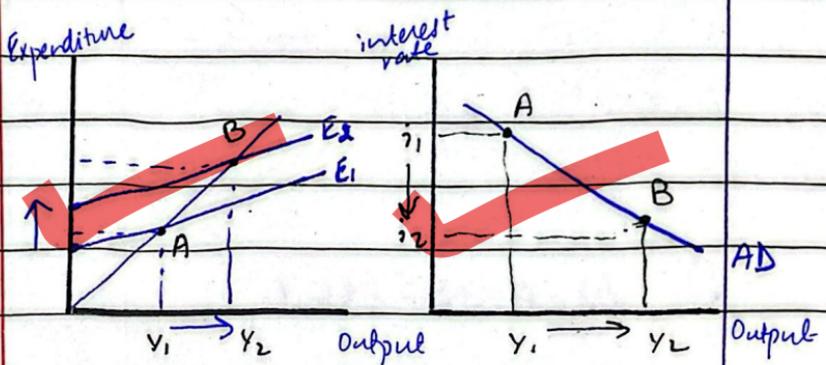
As price increases, money supply declines, causing LM shift to left. Interest rate rises and output declines. The rise in price leads to decline in output, resulting in a downward sloping demand curve.
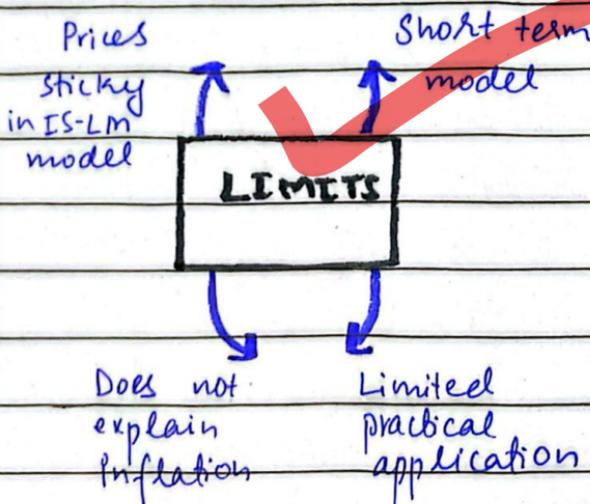
A. STRENGTHS

(i) Monetary and fiscal policy insights

The complemented model presents analysis on how fiscal and monetary changes impact the aggregate demand in an economy. Shifts in IS-LM translate into changes in AD, thus impacting macro-economic outlook.

(ii) Consequences of price changes highlighted

The model highlights the effects of price changes in economy. It impacts growth by leading to constricted policy outlook.

B. WEAKNESSES

Prices sticky in IS-LM model

Short term model

LIMITS

Does not explain inflation

Limited practical application

IV. CONCLUSION

The IS-LM model presents the function of economic policy and impacts on money and goods market. It complements the AS-AD framework. It helps analyze problems to guide measures and understanding but has limits in form of short-term outlook and limited applicability

impressed!
this is how we need to address every part of the question in detail
with such approach you can secure 15/20

Q.07:

I. INTRODUCTION

Elasticity refers to the relative change in response to a change in price or income of a good. Elasticities help understand consumption patterns of consumers and market changes. It exists in various forms like price elasticity, income elasticity and cross-price elasticity, each with an individual perspective into market.
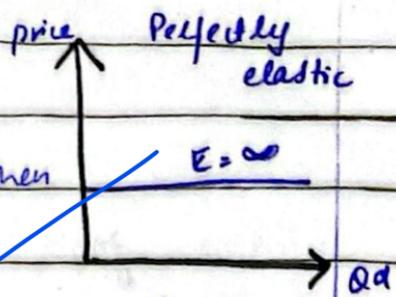
II. CONCEPTS OF ELASTICITY

(i) Own-price elasticity

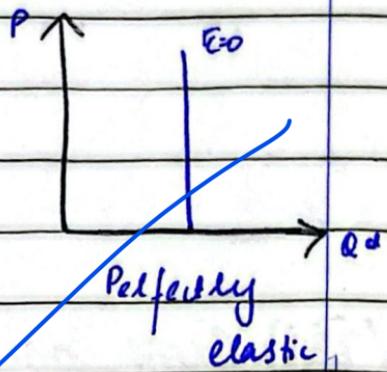Own price elasticity refers to the change in quantity demanded of goods relative to a change in price of those goods.

$$elasticity = \frac{\% \Delta Qd}{\% \Delta P}$$

Perfectly elastic demand occurs when small change in price leads to a significant change in quantity demanded. This is more applicable for price conscious goods. consumers. (luxury goods)

price   Perfectly
              elastic

$E = \infty$

Qd

Perfect inelastic price is when demand barely changes with relative price changes. This remains true for compulsory goods.

P

$E = 0$

Perfectly
elastic

Qd

(ii) Income elasticity

Income elasticity refers to the change in quantity demanded amid change in income. As income rises, consumer is able to afford more, their demand rises.

$$E \cdot O \cdot D = \frac{\% \Delta Q^d}{\% \Delta Y}$$

The elasticity of demand is positive when **Normal good** and is negative in case of **Inferior good** or consumer moves to a more expensive alternate.

NECESSARY GOOD: inelastic (elasticity < 1)
LUXURY GOOD: elastic (elasticity > 1)
demand

An elasticity of demand of zero means income has no effect on demand.

(iii) Cross price elasticity

Cross price means the change in demand of good A with respect to change in price of B. The concept of complements and complementary goods is introduced.

$$C.O.D = \frac{\% \, \Delta Q^d_A}{\% \, \Delta P_B} \quad ; \quad \begin{array}{l} A = \text{good A} \\ B = \text{good B} \end{array}$$

Complementary goods:
If two goods are complements, then a price increase of good A

will lead to decline in quantity of good B. Thus ~~positive~~ negative elasticity of demand.

Substitute goods:

Increase in price of good A increases demand for good B. Positive elasticity of demand.

If ~~the~~ elasticity equals zero, means goods are not related. Similarly factors like time, availability of close substitutes, status of income also impact the demand.

III. RELATION BETWEEN OWN-PRICE ELASTICITY AND TOTAL REVENUE

price

E > 1
(elastic)

E = 1 (unit)
elastic

E < 1 (inelastic)
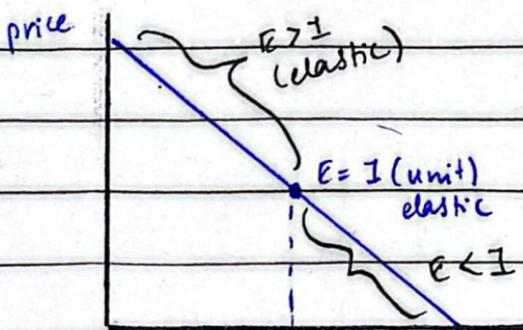
here you have to add the price and revenue scheudle then plot graph as per scheudle

for this revise lecture slides
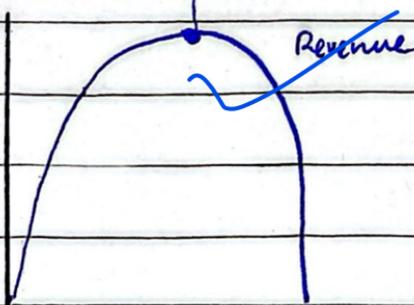
Revenue

(i) Price elastic demand

When price elastic;
Price increase leads to a
revenue decrease as demand falls.
Price decrease leads to a
revenue increase as demand rises.

(ii) Unit elastic, $E = 1$

Price changes up or down has
limited impact as Revenues constant

(iii) Price inelastic, $E < 1$

Price increase leads to Revenue
increase as demand changes barely
Price decrease leads to Revenue
decrease as consumers shift to better
quality goods.

The total revenue is therefore
maximized upon the incidence
of unit price elasticity. As
price decreases, as shown in
graph, demand becomes elastic,
and small change in price
leads to greater change in

demand, impacting overall prices.

IV. CONCLUSION

The concept of elasticities is essential to understand the impacts of variables like price and income upon the demand of goods by consumers. This helps analyze market trends and charts out policies by businesses for growth and improve revenues.

14/20