ECON 110B Problem Set 3 Solutions

Chapter 12, exercise 2 (page 336)

The MP curve shifts down, which results in $\bar{Y} \uparrow$ due to increased investment spending.

Chapter 12, exercise 6 (pages 336-337)

(a) The IS curve shifts to the left; the Fed should respond to this by lowering the MP curve in order to get $\bar{Y}$ back to zero.

(b) The IS curve shifts to the right; the Fed should respond to this by raising the MP curve in order to get $\bar{Y}$ back to zero.

(c) The IS curve shifts to the right; the Fed should respond to this by raising the MP curve in order to get $\bar{Y}$ back to zero.

(d) The IS curve shifts to the left; the Fed should respond to this by lowering the MP curve in order to get $\bar{Y}$ back to zero.

(e) The IS curve shifts to the right; the Fed should respond to this by raising the MP curve in order to get $\bar{Y}$ back to zero.

(f) The IS curve shifts to the left; the Fed should respond to this by lowering the MP curve in order to get $\bar{Y}$ back to zero.

Chapter 12, exercise 12 (page 337-338)

The answer to this exercise is in the textbook on pages 339-340.