

In-class Exercise: Aggregate Supply / Aggregate Demand

Directions: Work in groups of up to four people and answer the following questions. All papers will be collected, but only one member's paper will be randomly selected and graded and all members of the group will receive the same grade. Failure to complete the worksheet with a group will result in a 15 percentage point penalty.

By signing below, you agree that the following work represents the efforts of everyone in the group, and you are willing to accept as your own grade for the group project the grade earned from this representation of your group's work.

_____ Signature Group Member 1	_____ Print Name	_____ Date
_____ Signature Group Member 2	_____ Print Name	_____ Date
_____ Signature Group Member 3	_____ Print Name	_____ Date
_____ Signature Group Member 4	_____ Print Name	_____ Date

4. Suppose elected officials in Washington, DC are currently discussing changing laws governing financial markets, but no agreement has been made yet and it is uncertain whether or not the laws will be changed, and if so how. Suppose this uncertainty leads to an increase in uncertainty regarding businesses' future profitability. What impact does this have on investment? Describe and illustrate the impact on real GDP and the price level in the short run and the long run.

5. Suppose China conducts policy that causes the value of the dollar to increase relative to the Chinese Yuan. What happens to exports to China and imports from China? Describe and illustrate the impact on real GDP and the price level in the short run and the long run.

6. Suppose the economy is experiencing stagflation. Use a AS/AD model to illustrate the economy in such a recession. Suggest a government policy that can bring the economy out of the recession while not putting more upward pressure on prices. Use the AS/AD model to show the effect of this policy.

7. Suppose there is an increase in income in countries that are members of the European union.

(a) Show graphically and describe what happens *to the US/EURO exchange rate*.

(b) What happens as a result to U.S. exports and imports? Show graphically and describe the short-run and long-run effects of the change in net exports on output and price level in the United States.

8. Which of the following causes *long run* aggregate supply to shift to the right?
- (a) An improvement in technology.
 - (b) A decrease in wages.
 - (c) A decrease in interest rates.
 - (d) All of the above.
9. Which of the following causes *only the short run* aggregate supply to shift to the right?
- (a) An improvement in technology.
 - (b) A decrease in wages.
 - (c) A decrease in interest rates.
 - (d) All of the above.
10. Which of the following causes prices to increase *in the long run*?
- (a) An increase in the price of oil (a factor of production).
 - (b) An increase in investment demand caused by a change in expectations.
 - (c) A decrease in government spending.
 - (d) A decrease in foreign incomes.
11. When the value of the U.S. currency depreciates,
- (a) The short run aggregate supply curve shifts to the left.
 - (b) The aggregate demand curve shifts to the right.
 - (c) in the short run there will be an increase in the price level.
 - (d) All of the above.
12. When there is an increase in the interest rate,
- (a) aggregate demand shifts to the left.
 - (b) short run aggregate supply shifts to the left.
 - (c) long run aggregate supply shifts to the left.
 - (d) potential GDP increases.
13. When there is an improvement in technology,
- (a) aggregate demand shifts to the right, and long run aggregate supply shifts right.
 - (b) short run aggregate supply shifts to the right, and long run aggregate supply remains fixed.
 - (c) both short run and long run aggregate supply shift to the right.
 - (d) short run aggregate supply shifts to the left, and long run aggregate supply shifts to the right.