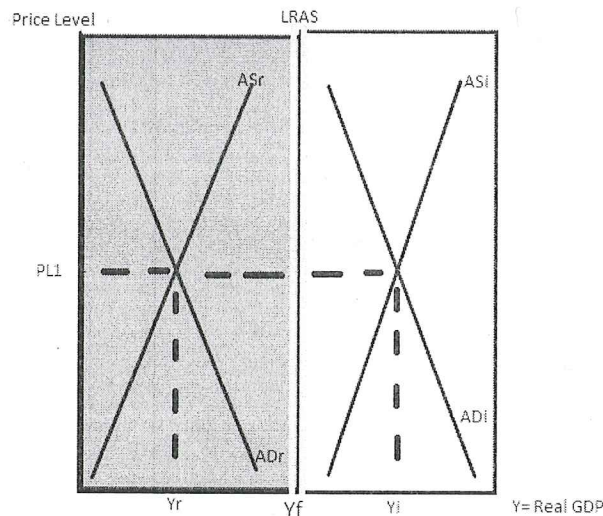


Name _____

Period _____

Date _____

Long Run Aggregate Supply and Output Gaps Activity



Key

Y_f = Full Employment GDP Output

r = recession

i = inflation

LRAS = long run aggregate supply

AD = aggregate demand

AS = aggregate supply

Directions: For each of the following scenarios answer with an r for recessionary gap, i for inflationary, or an f for at full employment. The full employment line is in the middle outlined in yellow.

1. At point PL_1 , Y_i the gap is
2. At point PL_1 , Y_r the gap is
3. The period in which wages and other price changes are flexible
4. If output exceeds full employment
5. If real GDP exceeds potential GDP
6. If full employment exceeds real output
7. The economy is operating at its full capacity
8. If the GDP is greater than LRAS
9. If potential GDP falls short of real GDP
10. The economy is experiencing unemployment
11. The economy is overheating
12. All prices are rising relative to real output
13. The economy is operating inside of its PPF
14. Output is greater than Y_f
15. Output is equal to the PPF
16. The national income is less than potential GDP

i
r
f
i
i
r
f
i
i
r
i
r
i
f
r

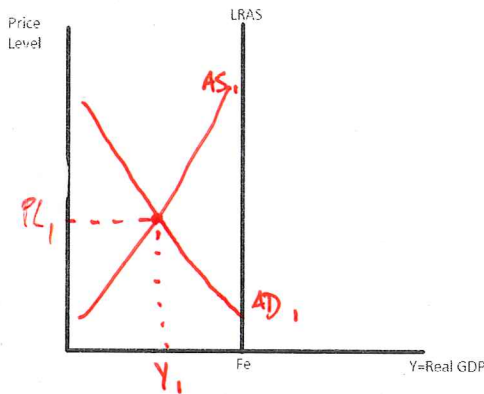
Name _____

Period _____

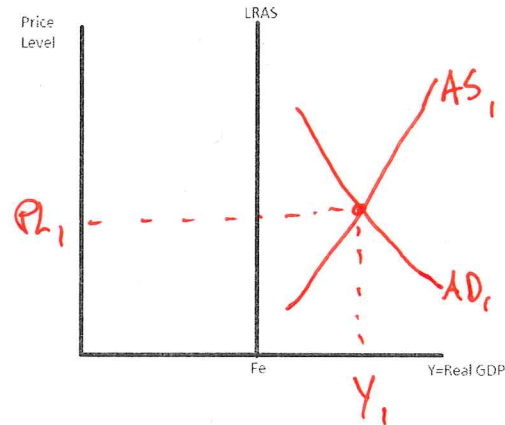
Date _____

Drawing Initial AS/AD Equilibrium in Relation to Full Employment

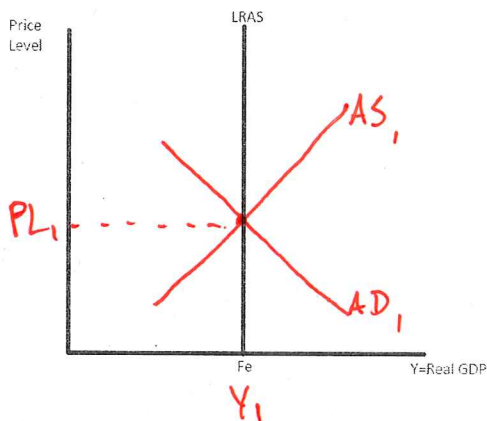
Directions: Draw the appropriate Short Run Aggregate Supply and Aggregate Demand initial equilibrium for each of the following scenarios and label it P_1 and Y_1 . Assume the Natural Rate of Unemployment is 5% for each graph and the acceptable rate of inflation for each country is 3%.



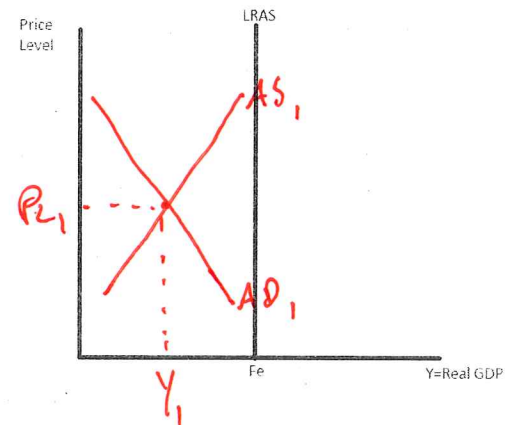
1. Unemployment is at 8%.



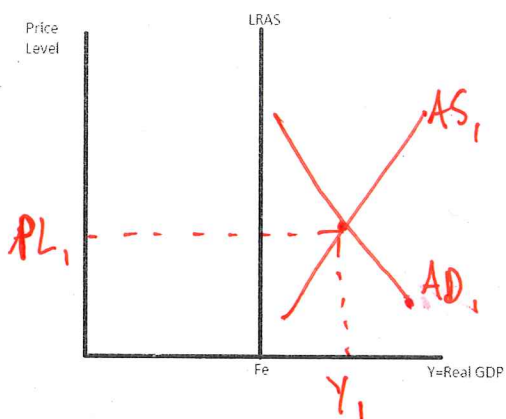
2. Inflation is at 6%.



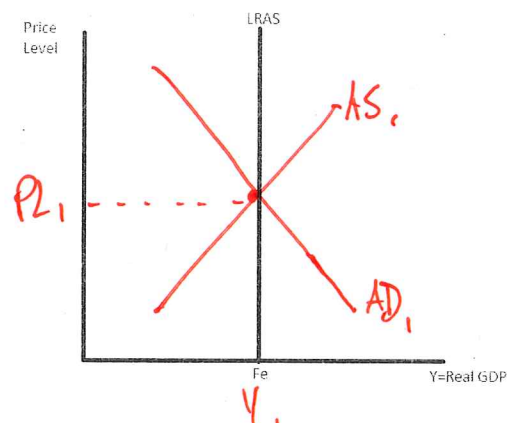
3. The economy is operating at full employment.



4. The economy is in recession at short run equilibrium.



5. Real GDP exceeds full employment.

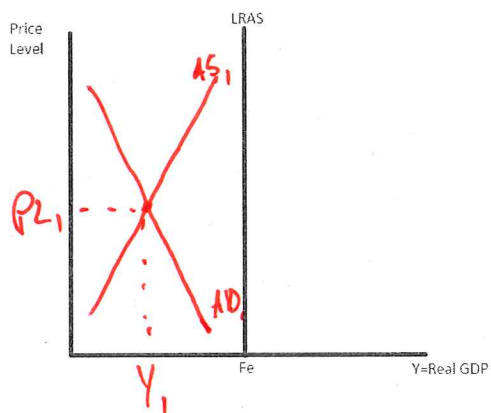


6. The economy is operating at full capacity.

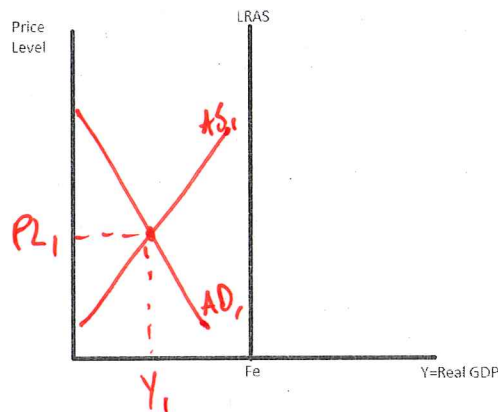
Name _____

Period _____

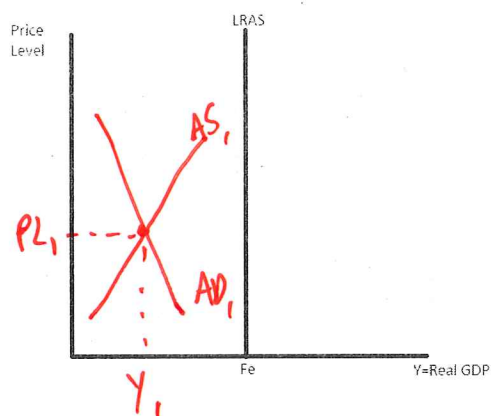
Date _____



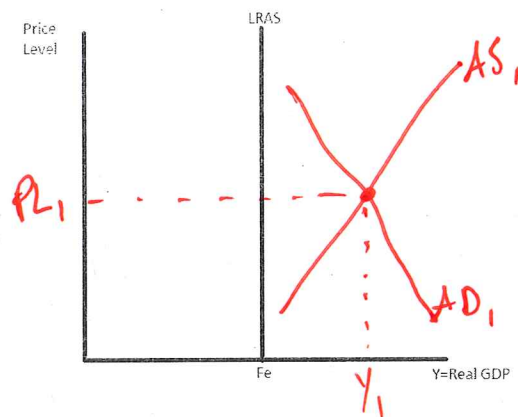
7. The unemployment rate exceeds the natural rate.



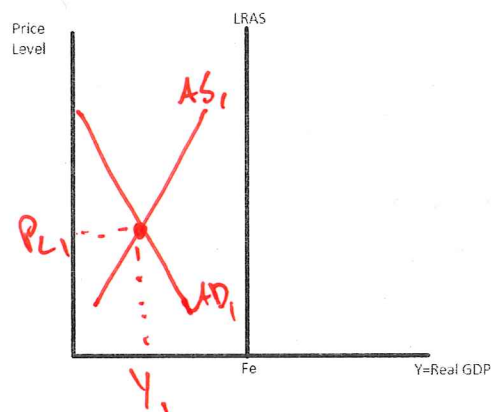
8. Full employment exceeds real output.



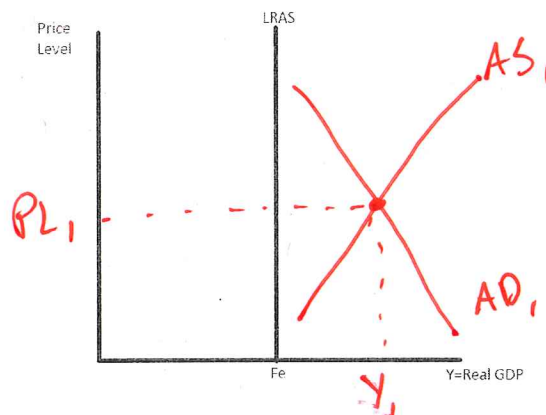
9. The PPF exceeds real GDP.



10. All prices are rising relative to production.



11. Potential GDP is beyond real output.

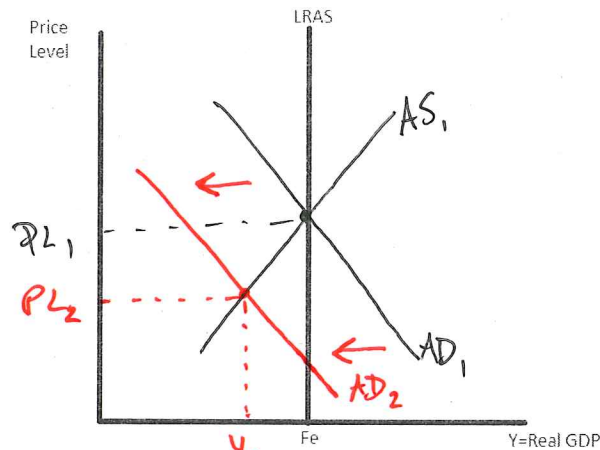


12. Employment is beyond full employment.

Initial AS/Ad Equilibrium and Shifting

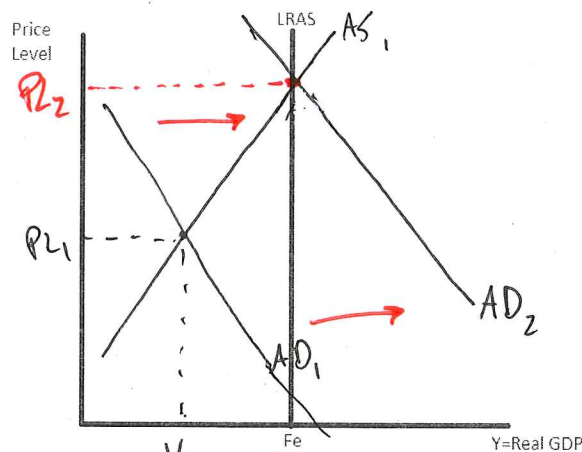
Directions: Draw the appropriate Short Run Aggregate Supply and Aggregate Demand initial equilibrium for each of the following scenarios and label it P_1 and Y_1 . Then shift the graph based on the scenario given labeling the new equilibrium P_2 and Y_2 .

1. The economy is in long run equilibrium. The exchange rate rises causing the currency to appreciate in value.



Determinant: $X_n \downarrow$
 AS/AD: \downarrow
 Price Level: \downarrow
 Real GDP (Y): \downarrow

2. Real GDP falls short of full employment. The government increases expenditures.



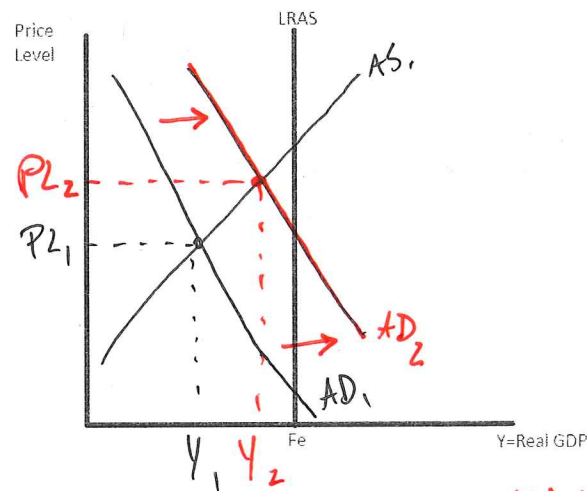
Determinant: $\uparrow G$
 AS/AD: \uparrow
 Price Level: \uparrow
 Real GDP (Y): \uparrow

Name _____

Period _____

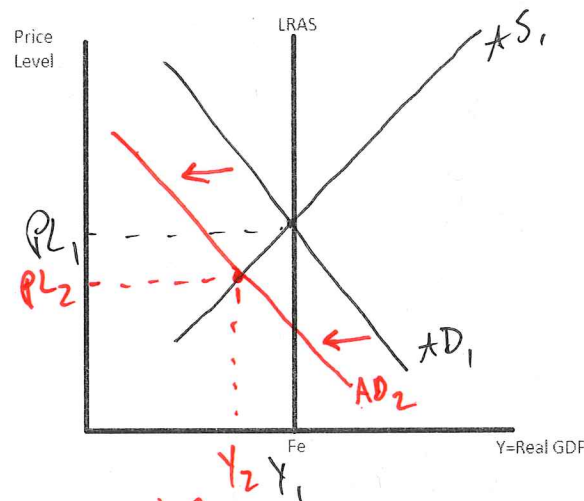
Date _____

3. The US economy is currently in a recession. The government raises taxes and increases government spending by the same amount.



Determinant: *Balanced budget multiplier ($\uparrow G > \uparrow T$)*
 AS/AD: \uparrow
 Price Level: \uparrow
 Real GDP (Y): \uparrow

4. The economy is operating at full capacity. There is a sharp decline in government healthcare spending.



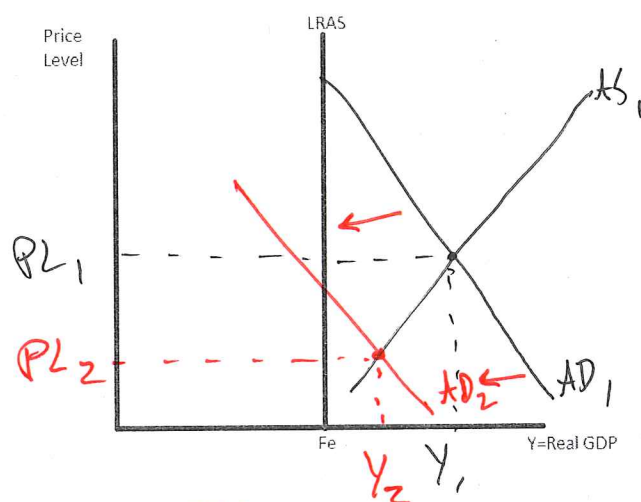
Determinant: $\downarrow G$
 AS/AD: \downarrow
 Price Level: \downarrow
 Real GDP (Y): \downarrow

Name _____

Period _____

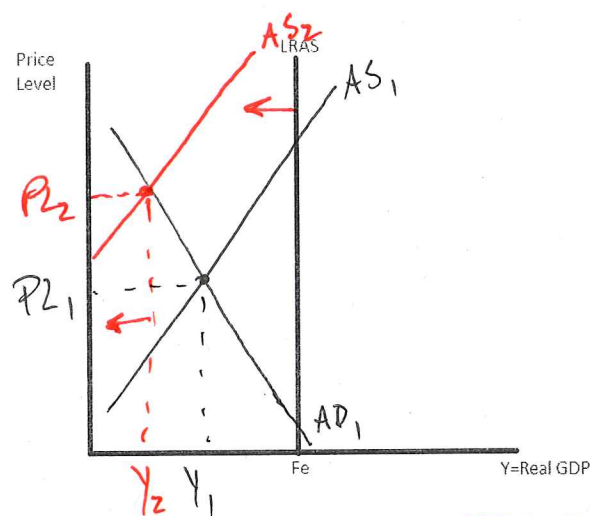
Date _____

5. Employment has increased beyond the natural rate. Investment spending falls.



Determinant: $I \downarrow$
 AS/AD: \downarrow
 Price Level: \downarrow
 Real GDP (Y): \downarrow

6. Employment is falling and the economy is losing production. The U.N. shuts down the internet completely over privacy concerns.



Determinant: \downarrow Productivity or Technology
 AS/AD: \downarrow
 Price Level: \uparrow
 Real GDP (Y): \downarrow