Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Period: \_\_\_\_\_\_ Date: \_\_\_\_\_\_\_\_\_\_\_

**AP Macroeconomics – Changes in Aggregate Demand and Aggregate Supply**

**Directions: For the following scenarios, starting at full employment, graph the following scenarios and explain the short run effects on the economy. (Do not assume any other changes – ceteris paribus)**

1. Total Consumption remains the same but households import 20% more goods.
2. Advances in autonomous automobiles revolutionize the trucking and shipping industries.
3. Foreign trading partners suffer a great recession.
4. A new group of government policy-makers decide to deal with a record setting debt level by curtailing government purchases and increasing taxes.
5. The Federal Reserve significantly increases the purchase of bonds on the open market, increasing the Money Supply.
6. Fear of a future downturn in the economy and potential loss of jobs creates a fall in consumer confidence.
7. Households increase their savings rate.
8. The international value of the dollar drops precipitously (the exchange rate decreases).
9. A significant discovery in alternative energy technologies provides for a cheaper energy source.
10. Businesses experience a significant increase in input prices.
11. The economies in Europe begin to flourish.
12. The government imposes a significant tariff on intermediate goods used in domestic production.
13. Education vastly improves in the United States arming the labor force with new skills.
14. The Federal Government significantly raises taxes on businesses.
15. The Federal Reserve raises interest rates with the Discount Rate and Federal Funds Rate rising causing the Money Supply to shrink.
16. The dollar appreciates (increasing the exchange rate) versus the Euro.
17. The United Fast Food Workers succeed in their plan to raise minimum wage to $15/hr.
18. The EPA increases regulation on Coal and Natural Gas production.

**Determinants of AD Determinants of AS**

1. **Any change in a GDP variable 1. Potential GDP changes/PPF shifts**
2. **Expectations 2. Cost of Inputs**
3. **Fiscal Policy 3. Taxes**
4. **Monetary Policy 4. Government Regulations**
5. **Foreign Income 5. Productivity**
6. **Foreign Exchange Rate 6. Technology**

**Determinants detailed on next page:**

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| --- | --- |
| Determinants of AD | Determinants of AS |
| Any change in a GDP variable:  -Any increase in C,I,G, or Xn will increase AD  -Any decrease in C,I,G, or Xn will decrease AD | Potential GDP changes. Or the entire economy grows or shrinks. (Does the PPF shift?) |
| Expectations | Cost of Inputs   * + - The money wage rate changes.     - The money prices of other resources change. |
| Fiscal Policy   * + - Expansionary- A decrease in Taxes and/or an increase in Government Spending will increase AD     - Contractionary- An **increase in Taxes** and/or a **decrease in Government Spending** will decrease AD | Changes in business taxes (legal and institutional environment) |
| Monetary Policy   * + - Expansionary- A increase in the Money Supply will increase AD     - Contractionary- **A decrease in the Money Supply** will decrease AD | Government Regulations (legal and institutional environment) |
| Foreign Income  - An increase in foreign income increases X and increases AD  - An decrease in foreign income decreases X and decreases AD | Productivity |
| Foreign Exchange Rate  - A rise in exchange rate decreases AD  - A fall in exchange rate increases AD | Technology |