2015

1.Assume that the United States economy is operating below full employment.

(a)Draw a correctly labeled graph of long-run aggregate supply, short-run aggregate supply, and aggregate demand, and show each of the following.

(i)Current equilibrium output and price level, labeled as Y1 and PL1

(ii)Full-employment output, labeled as Yf

(e)Assume the government lowers income tax rates to eliminate the recessionary gap. Will each of the following increase, decrease, or stay the same?

(i)Aggregate demand. Explain.

(ii)Long-run aggregate supply. Explain.

2014

1.Assume that the United States economy is currently operating below the full-employment level of real gross domestic product with a balanced budget.

(a)Draw a correctly labeled graph of aggregate demand, short-run aggregate supply, and long-run aggregate supply, and show each of the following in the United States.

(i) Current output and price level, labeled as Y1 and PL1, respectively

(ii)Full-employment output, labeled as Yf

2013

1.Assume that the United States economy is operating at full employment.

(a)Using a correctly labeled graph of the long-run aggregate supply, short-run aggregate supply, and aggregate demand, show each of the following.

(i)Current price level, labeled PL1

(ii)Current output level, labeled Y1

2012

3.Assume the economy of Andersonland is in a long-run equilibrium with full employment. In the short run, nominal wages are fixed.

(a)Draw a correctly labeled graph of short-run aggregate supply, long-run aggregate supply, and aggregate demand. Show each of the following.

(i)Equilibrium output, labeled YJ

(ii)Equilibrium price level, labeled PLJ

(b)Assume that there is an increase in exports from Andersonland. On your graph in part (a), show the effect of higher exports on the equilibrium in the short run, labeling the new equilibrium output and price level Y2 and PL2, respectively.

(c)Based on your answer in part (b), what is the impact of higher exports on real wages in the short run? Explain.

(d)As a result of the increase in exports, export-oriented industries in Andersonland increase expenditures on new container ships and equipment.

(i)What component of aggregate demand will change?

(ii)What is the impact on the long-run aggregate supply? Explain.

2011

1.Assume that the United States economy is currently in a recession in a short-run equilibrium.

(b)Draw a correctly labeled graph of aggregate demand and aggregate supply in the recession and show each of the following.

(i)The long-run equilibrium output, labeled Yf

(ii)The current equilibrium output and price levels, labeled Ye and PLe, respectively

(c)To balance the federal budget, suppose that the government decides to raise income taxes while maintaining the current level of government spending. On the graph drawn in part (b), show the effect of the increase in taxes. Label the new equilibrium output and price levels Y2 and PL2, respectively.

(e)Now assume instead that the government and the Federal Reserve take no policy action in response to the recession.

(i)In the long run, will the short-run aggregate supply increase, decrease, or remain unchanged? Explain.

(ii)In the long run, what will happen to the natural rate of unemployment?

2011 B

1.Assume that the economy of Meekland is in a long-run equilibrium with a balanced government budget.

(a)Using a correctly labeled graph of aggregate supply and aggregate demand, show each of the following.

(i)Long-run aggregate supply

(ii)The output level, labeled YE, and the price level, labeled PLE

(b)Assume consumer confidence falls. Show on your graph in part (a) the short-run impact of the change in consumer confidence and label the new equilibrium price level and output Y1 and PL1, respectively.

(f)In the absence of any changes in fiscal and monetary policies in the long run, will the short-run aggregate supply curve shift to the left, shift to the right, or remain unchanged as a result of the fall in consumer confidence? Explain.

2010

1. Assume that the United States economy is currently in long-run equilibrium.

(a) Draw a correctly labeled graph of aggregate demand and aggregate supply and show each of the following.

(i) The long-run aggregate supply curve

(ii) The current equilibrium output and price levels, labeled as YE and PLE, respectively

(b) Assume that the government increases spending on national defense without raising taxes.

(i) On your graph in part (a), show how the government action affects aggregate demand.

(ii) How will this government action affect the unemployment rate in the short run? Explain.

(c)Assume that the economy adjusts to a new long-run equilibrium after the increase in government spending.

(i)How will the short-run aggregate supply curve in the new long-run equilibrium compare with that in the initial long-run equilibrium in part (a)? Explain.

(ii)On your graph in part (a), label the new long-run equilibrium price level as PL2.

2010 B

1.A country's economy is in a short-run equilibrium with an output level less than the full-employment output level. Assume an upward-sloping aggregate supply curve.

(a)Using a correctly labeled aggregate demand and aggregate supply graph, show the following.

(i)Full-employment output, labeled as YF

(ii)Equilibrium real output and price level, labeled as YE and PLE, respectively

(b)Assume that the country's government increases domestic military expenditures. On the graph from part (a), show how the increased military expenditures affect the following in the short run.

(i)Aggregate demand

(ii)Equilibrium real output and price level, labeled as Y2 and PL2, respectively

3.How does each of the following changes affect the real gross domestic product and price level of an open economy in the short run? Explain each.

(a)An increase in the price of crude oil, an important natural resource

(b)A technological change that increases the productivity of labor

(c)An increase in spending by consumers

(d)The depreciation of the country's currency in the foreign exchange market

2009 B

1.The unemployment rate in the country of Southland is greater than the natural rate of unemployment.

(a)Using a correctly labeled graph of aggregate demand and aggregate supply, show the current equilibrium real gross domestic product, labeled YC, and price level in Southland, labeled PLC.

The president of Southland is receiving advice from two economic advisers—Kohelis and Raymond—about how best to reduce unemployment in Southland.

(b)Kohelis advises the president to decrease personal income taxes.

(i)How would such a decrease in taxes affect aggregate demand? Explain.

(c)Raymond advises the president to take no policy action.

(i)What will happen to the short-run aggregate supply curve in the long run? Explain.

2008

1.Assume that current real gross domestic product falls short of full-employment output by $500 billion and the marginal propensity to consume is 0.8.

(a)Calculate the minimum increase in government spending that could bring about full employment.

(b)Assume that instead of increasing government spending, the government decides to reduce personal income taxes. Will the reduction in personal income taxes required to achieve full employment be larger than or smaller than the government spending change you calculated in part (c)(i) ? Explain why.

2008 B

1.Assume that the economy of Country Z is operating on the upward-sloping portion of its short-run aggregate supply curve. Assume that the government increases spending.

(a)How will the increase in government expenditures affect each of the following in the short run?

(i)Aggregate demand

(ii)Short-run aggregate supply

(b)Using a correctly labeled graph of aggregate demand and aggregate supply, show the effect of the increase in government expenditures on real output and the price level.