Directions: Work in groups of up to four pecollected, but only one member's paper will be will receive the same grade. Failure to complet point penalty.	e randomly selected and graded and	d all members of the group
By signing below, you agree that the follow you are willing to accept as your own grade for 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

Print Name

Your Name: _

 ${\rm Date}$

ECO 120: Macroeconomics

Signature Group Member 4

In-class Exercise: Aggregate Supply / Aggregate Demand

Directions: When asked to illustrate the short-run and long-run effects in the economy, draw two graphs. One that only illustrates the short-run effects, and a second that illustrates both the short-run and long-run effects.				
1. Show graphically and describe the short run and long run effects of an increase in government spending. Describe and illustrate the impact on real GDP and the price level in the short run and the long run.				
2. Show graphically and describe the short run and long run effects of an increase in oil prices. Describe and illustrate the impact on real GDP and the price level in the short run and the long run.				
3. Describe and illustrate the impact short-run and long-run effects of an increase in oil prices combined with an increase in government spending.				

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 government decreases the tax rate on corporate revenue and proprietorship income. Describe and illustrate the impact on real GDP and the price level in the short run and the long run.

7.	Supp	Suppose the economy is in recession and unemployment is high.		
	(a)	Use an AS/AD model and a labor market model to illustrate these problems. Where is the short-run equilibrium level of real GDP relative to potential GDP? Where is the wage relative to the equilibrium wage?		
	(b)	Describe and illustrate what happens in the labor market and the market for final goods and services (i.e. AS/AD) as the wage converges to the equilibrium wage. What is the impact on real GDP, price level, employment, and unemployment?		
	(c)	Beginning from the situation you illustrated in part (A), suggest a government spending or tax policy to address the economic problem. Describe and illustrate the impact on the labor market and the market for final goods and services.		

8.	such	spose the economy is experiencing stagflation. Use a AS/AD model to illustrate the h a recession. Suggest a government policy that can bring the economy out of the recogniting more upward pressure on prices. Use the AS/AD model to show the effect of	ession while
	2		
9.		spose there is an increase in income in countries that are members of the European un. Show graphically and describe what happens to the US/EURO exchange rate.	ion.
		What happens as a result to U.S. exports and imports? Show graphically and describer run and long-run effects of the change in net exports on output and price level in States.	

- 10. 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.
- 11. 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.
- 12. 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.
- 13. 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.
- 14. When there in 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.
- 15. When there in 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.