ECO 120: Macroeconomics In-class Exercise Aggregate Supply / Demand

Name: _____

Section (Circle One): 2:15-3:40PM 3:55-5:20PM

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. You must agree to these terms for a non-zero grade on the assignment.

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

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. 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.

4. Suppose China conducts policy that causes an appreciation of the U.S. dollar 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.

- 5. 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 shortrun 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 fiscal policy (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.