

## ECO 120: Macroeconomics

### Homework: Aggregate Supply / Aggregate Demand

1. Suppose the economy is at the long-run equilibrium when suddenly a housing market bubble causes a decrease in demand for housing.
  - (a) Describe and illustrate the impact on the price level and real GDP in the short run.
  - (b) Assuming government does not intervene to fix the problem, describe and illustrate the impact on the price level and real GDP in the long-run.
  - (c) Given the state of the economy in the short-run, suggest a government policy to fix the problem without waiting for convergence to long-run equilibrium. Illustrate the impact of this policy on price level and real GDP. Compared to the original long-run equilibrium, what happened to the price level and real GDP as a consequence of your government policy?
  
2. Suppose the economy is at the long-run equilibrium when there is a sudden spike in crude-oil prices.
  - (a) Describe and illustrate the impact on the price level and real GDP in the short run.
  - (b) Assuming government does not intervene to fix the problem, describe and illustrate the impact on the price level and real GDP in the long-run.
  - (c) Given the state of the economy in the short-run, suggest a government policy to fix the problem without waiting for convergence to long-run equilibrium. Illustrate the impact of this policy on price level and real GDP. Compared to the original long-run equilibrium, what happened to the price level and real GDP as a consequence of your government policy?
  
3. Suppose the economy is at the long-run equilibrium when there is an increase in consumer confidence.
  - (a) Describe and illustrate the impact on the price level and real GDP in the short run.
  - (b) Does this increase in consumer confidence have a desirable impact in the short-run and long-run? Explain.