

Name:

Fall 2017

Principles of Macroeconomics

Week 6 - AD and AS

1. In a sentence or two explain why the AD curve is downward sloping.
2. Explain in a sentence or two why the AS is initially flat, but then curves upwards and then becomes vertical.
3. What does it mean for prices to be sticky downwards? How is this shown in the AD and AS graphs?
4. What are the common factors that can shift the AD curve? Give a specific example and explain how it shifts the AD.
5. What are the factors that shift the AS curve? List a specific example.
6. Go back to your earlier examples. Using your examples draw a graph showing the original AD and AS curves and showing the shifts, find the new equilibrium.

7. What is NAIRU?

8. What kind of unemployment exists when the economy is experiencing NAIRU unemployment? What is another name for this scenario?

9. What drives changes in the business cycle?

10. What is the largest component of RGDP?

11. Pick one of the following scenarios and draw out AD and AS graphs.
 - a) A boom in the world economy, leading to increasing exports.
 - b) The Fed decides to increase interest rates to make the USD stronger
 - c) A housing bubble that significantly increases household wealth.
 - d) The Michigan survey of consumer confidence finds that confidence has increased to a 5 year high.
 - e) The discovery and drilling of a massive oil field off the North Carolina shore.
 - f) The invention of a significantly cheaper battery technology.
 - g) A sudden spike in oil prices in the world economy like in the mid-2000s.
 - h) Massive flooding caused by several hurricanes in the Gulf.
 - i) Unexpected good weather that results in a bumper crop produce all across the US.
 - j) A spike in the prices of coal and steel after a political crisis in China.