

## AS/AD: Problems

1. What would the AD curve look like if consumption and investment did not respond at all to changes in interest rates?
2. What would the AD curve look like if government spending also decreases as interest rates rise?
3. In the AS/AD model, how does expansionary fiscal policy affect the inflation and output gaps?
4. In the AS/AD model, how does contractionary monetary policy affect the inflation and output gaps?
5. Intuitively, why is AD downward sloping.
6. What if labor is fixed so that it always equals 1 no matter what changes in the model. What will AS look like?
7. Intuitively, why is AS upward sloping.
8. In the AS/AD model, how does a temporary productivity increase affect the inflation and output gaps?
9. In the AS/AD model, how do lower commodity prices affect the inflation and output gaps?
10. True or False? The inflation gap may be negative, but the output gap is always positive.