

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.
11. Suppose that a pandemic, caused by a virus, reduces both the demand for consumer goods and reduces labor supply. What will be the expected impacts on the output and inflation gaps?
12. Suppose that the economy is on the steep part of the AS curve. Will monetary policy be more or less effective compared to the flatter part of the AD curve?
13. True or False? A higher price level, all else equal, causes the AD curve to shift to the left.
14. If workers develop a greater taste for leisure so that they supply less labor at any real wage, how will this affect the AS/AD model? Discuss both the short and long run.