AS/AD: Problems

1. What would the AD curve look like if consumption and investment did not respond at all to changes in inflation?

2. What would the AD curve look like if government spending also decreases as inflation rises?

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 higher commodity prices affect the inflation and output gaps?

10. 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?

11. 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?

12. True or False? A higher price level, all else equal, causes the AD curve to shift to the left.