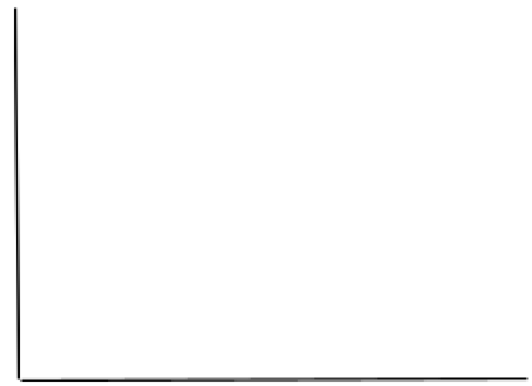
AD/AS Economy Quiz
MACROECONOMICS

1. Assume a country's economy is operating below full employment.
   a. Draw a correctly labeled graph of aggregate demand, short-run aggregate supply, and long-run aggregate supply, and show each of the following (use the pre-drawn axes).
      i. The current equilibrium output and price level, labeled as Y_1 and PL_1, respectively.
      ii. The full employment output labeled as Y_F.



2. The government calculates the gap to be equal to $100 billion. The Marginal Propensity to Consume is .90.
   a. What is the spending multiplier? Show your work.

   b. What is the tax multiplier? Show your work.

   c. If the government plans to restore the economy to full employment, how much would they have to change spending by? Show your work.

   d. If the government plans to restore the economy to full employment, how much would they have to change taxes by? Show your work.

3. List the four components of Aggregate Demand: ________ + _________ + __________ + __________
   a. Which of the components listed above, make up almost 70% of the Aggregate Demand (GDP)?

   b. Which of the two components listed above are sensitive to interest rate changes? Explain

   c. If consumer confidence decreases, we would expect aggregate demand to (increase | no change| decrease).

4. What is the difference between short-run aggregate supply and long-run aggregate supply when it comes to the relationship between price level and Real Gross Domestic Product?

5. There are three main ways that the short-run aggregate supply can shift. Choose one and **explain** how when the variable changes the short-run aggregate supply shifts.