Topic 3.7 Long-Run Self-Adjustment

1. <u>Restoring Long-run Equilibrium:</u> **Take a look at each of the graphs below. They show an economy in short run equilibrium with an inflationary gap or recessionary gap. Explain what will happen in the long run to restore full employment if there is no government intervention.**
   [USE THIS LINK TO FIGURE OUT WHAT HAPPENS IN A SELF CORRECTING ECONOMY]
   There is also a video at the end of the document to help you.

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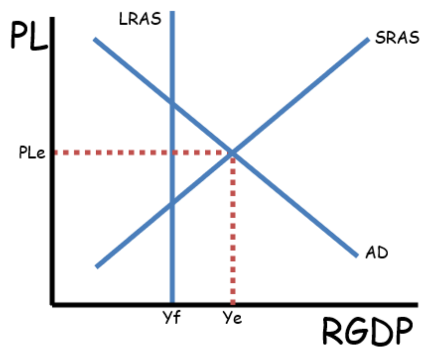
<tr><td rowspan="6">
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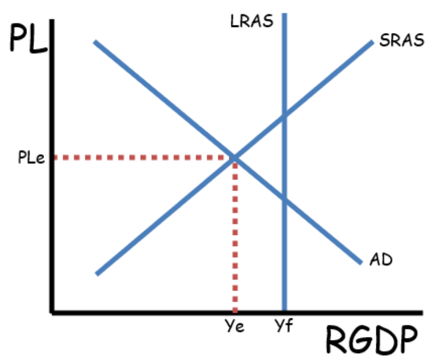
<tr><td rowspan="6">
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2. <u>From Equilibrium and back:</u> **For each of the following, assume the economy starts in long-run equilibrium. What economic problem will each of the following events create and how is long run equilibrium restored if there is <u>no government intervention (self correction)</u>?**

	What happens to the price level and real output in the short run?	Is there an inflationary gap or recessionary gap?	What curve shifts and what direction to get back to the long run?	What causes the shift back to the long run?
Aggregate demand shifts right				
Aggregate demand shifts left				
Short-run aggregate supply shifts right				
Short-run aggregate supply shifts left				

3. <u>Short-run vs long-run:</u> **For each of the following, assume the economy starts in long-run equilibrium. What is the short-run impact and long-run impact (increase, decrease, or no change) of the change on the real output (Y) and the price level (PL).**

	Short-run Impact		**Long-run Impact**	
	Change in PL	**Change in Y**	**Change in PL**	**Change in Y**
There is an increase in government spending				
There is a decrease in consumer spending				
Energy prices increase				
Business shipping costs decrease				

LINK TO VIDEO