Macroeconomics 1 – Seminar 9

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Whenever the economy is in recession, we can expect:

a. investment to decrease

b. unemployment to decrease

c. incomes to increase

d. all of the above

Which of the following occurs when the price level rises?

a. Consumers feel wealthier, which encourages them to spend more.

b. People need to hold more money, so interest rates rise, making firms borrow and invest less.

c. The value of the dollar rises on foreign exchange markets.

d. The government responds to the higher prices by reducing its purchases.

Which of the following would cause the aggregate demand curve to shift to the right?

a. A new law that requires the government to cover the full cost of medicines for the elderly.

b. A wave of pessimism afflicts consumers.

c. Higher real interest rates.

d. The stock market crashes.

- The long run aggregate supply curve is *vertical/horizontal,* because in the long-run, nominal variables, such as the price level, *do/do not* affect real variables, such as the production of goods and services in the economy.

The long run aggregate supply will shift to the right whenever:

a. the price level increases.

b. factors of production (such as labor and capital) increase.

c. expenditures (such as consumption and net exports) increase.

d. the prices of inputs used to produce goods and services (such as wages and the price of oil) decrease.

Which of the following would cause the short run aggregate supply curve to shift to the left, but have no effect over the long run aggregate supply?

a. The amount of factors of production (such as labor and capital) increase.
b. The amount of factors of production (such as labor and capital) decrease.
c. Prices of inputs (such as wages or oil prices) increase.
d. Prices of inputs (such as wages or oil prices) decrease.

If an economy is in a state of long run equilibrium, all of the following will occur, EXCEPT:

a. all markets will be in equilibrium, including input markets.
b. there are no forces for further adjustment.
c. the economy will be producing its natural rate of output.
d. there will be no unemployment in the economy.

Suppose the economy is in long run equilibrium. If aggregate demand increases, we can expect that in the short run output will _________, and in the long run output will _________.

a. decrease, increase

b. decrease, decrease

c. increase, increase

d. increase, return to the natural rate of output

Suppose the economy is in long run equilibrium. If the stock market crashes in the short run, we can expect the price level to _________, and output to _________

a. decrease, increase

b. decrease, decrease

c. increase, increase

d. increase, decrease

Suppose the economy is in long-run equilibrium. If the price of oil increases substantially, in the short run, we can expect the price level to _________, and output to _________

a. decrease, increase

b. decrease, decrease

c. increase, increase

d. increase, decrease

Explain whether each of the following events will increase, decrease, or have no effect on long-run aggregate supply.

a. The U.S. experiences a wave of immigration. increase
b. Congress raises the minimum wage to $10 per hour. Has no effect
c. Intel invents a new and more powerful computer chip. increase
d. A severe hurricane damages factories along the East Coast. decrease

Suppose the economy is in a long-run equilibrium.

a. Draw a diagram to illustrate the state of the economy. Be sure to show aggregate demand, short-run aggregate supply, and long-run aggregate supply.

b. Now suppose that a stock-market crash causes aggregate demand to fall. Use your diagram to show what happens to output and price level in the short run. What happens to the unemployment rate? Output and price level decline and unemployment rate rises

c. Use the sticky-wage theory of aggregate supply to explain what will happen to output and the price level in the long run (assuming there is no change in policy). What role does the expected price level play in this adjustment? Output will return to its natural level and price will fall even more