

Aggregate Demand and Aggregate Supply Practice

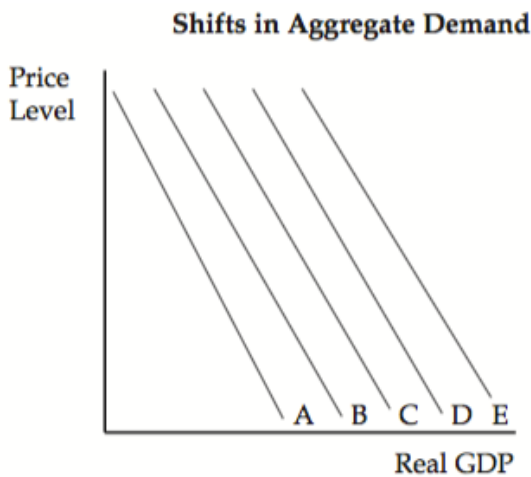
I. Aggregate Demand

1. What is aggregate demand?

2. What factors can shift the AD curve?

3. What is the relationship between these factors and AD?

For each situation below, determine whether the event will increase or decrease AD. Start with AD curve C. If you think the first situation would increase AD, write “increase” and move to curve D. If you think the first situation would decrease AD, write “decrease” and move to curve B. Move only one curve at a time Do not skip a curve even if you think the situation would cause a huge increase or decrease in AD. If you think an event will not cause AD to shift, write “no change.” Do not go beyond the five curves. If you need to go beyond the five curves, you need to rethink your answer.



4. Congress cuts taxes.
AD _____ Curve _____

5. A survey shows business investment spending decreased last month.
AD _____ Curve _____

6. Government spending will increase next fiscal year; the president promises no increase in taxes.
AD _____ Curve _____

7. A survey shows consumers are confident about the future economy.
AD _____ Curve _____

8. Business leaders feel the economy is headed for recession. AD _____ Curve _____

9. The stock market collapses—investors lose billions. AD _____ Curve _____

10. Productivity rises for the fourth straight year. AD _____ Curve _____

11. The president cuts defense spending by 20%; there is no increase in domestic spending.
AD _____ Curve _____

II. Aggregate Supply

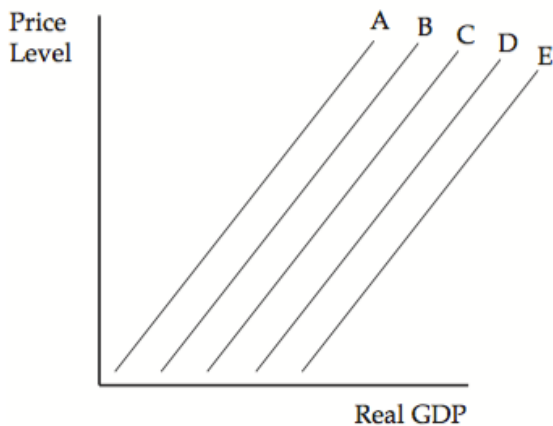
12. What is aggregate supply?

13. What factors can shift the AS curve?

14. What is the relationship between these factors and AS?

For each situation below, determine whether the event will increase or decrease AS. Start with AS curve C. If you think the first situation would increase AS, write “increase” and move to curve D. If you think the first situation would decrease AS, write “decrease” and move to curve B. Move only one curve at a time. Do not skip a curve even if you think the situation would cause a huge increase or decrease in AS. If you think an event will not cause AS to shift, write “no change.” Do not go beyond the five curves. If you need to go beyond the five curves, you need to rethink your answer.

Shifts in Aggregate Supply



15. Unions grow more aggressive; wage rates increase.

AS _____ Curve _____

16. OPEC successfully increases oil prices.

AS _____ Curve _____

17. Labor productivity increases dramatically.

AS _____ Curve _____

18. A giant natural gas discovery decreases energy prices. AS _____ Curve _____

19. Computer technology brings new efficiency to industry. AS _____ Curve _____

20. Government spending increases. AS _____ Curve _____

21. Cuts in tax rates increase incentives to work, save, and invest. AS _____ Curve _____

22. Research shows that improved schools have increased the skills of American workers and managers.

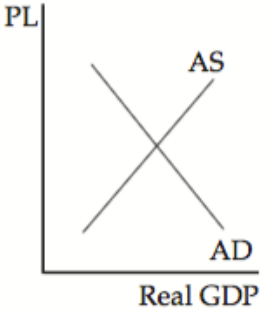
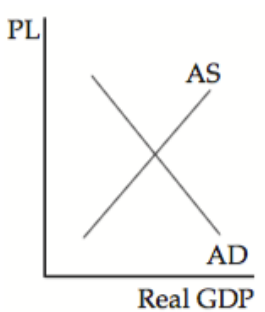
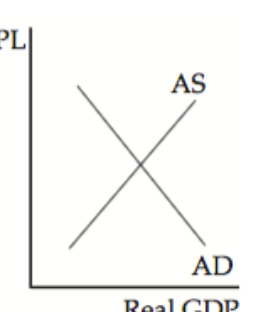
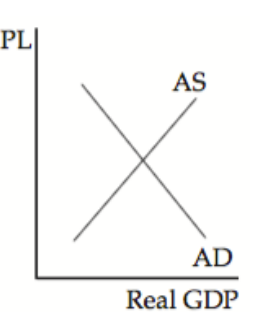
AS _____ Curve _____

III. Effects of Shifts in Aggregate Demand and Supply

23. What does equilibrium mean when discussing microeconomics?

24. What does equilibrium mean when discussing macroeconomics?

For each of the following events below, make additions that illustrate the change on the diagram. Then indicate the response in terms of shifts in or movements along the AS curve or AD curve and the effect on real GDP and the price level in the short run. Indicate shifts in the curve by S and movements along the curve by A. Indicate the changes in the price level and real GDP with + for an increase and – for a decrease. We will do unemployment together.

	<p>25. Increase in labor productivity due to technological change.</p> 	<p>26. Increase in the price of inputs used by many firms.</p> 	<p>27. Boom in investment, assuming some unemployed resources are available.</p> 	<p>28. A major reduction in investment spending.</p> 
AD curve				
AS curve				
Real GDP				
Price level				
Unemployment				