1. Draw the aggregate demand curve (AD₁). Label your axes clearly.

2. The Fed buys government bonds. Show graphically the effects on the aggregate demand curve. Label AD_2 .

3. The Fed sells government bonds. Show graphically the effects on the aggregate demand curve. Label AD_3 .

4. Congress raises government spending (G). Show graphically the effects on the aggregate demand curve. Label AD₄.

5. Congress lowers government spending (G). Show graphically the effects on the aggregate demand curve. Label AD₅.

6. Congress raises net taxes (T). Show graphically the effects on the aggregate demand curve. Label AD₆.

7. Draw the aggregate demand curve (AD_1) and aggregate supply curve (AS_1) . Label your equilibrium price level (P_1) and aggregate output (Y_1) .

Econ 98-Chiu	Aggregate Demand and Supply Worksheet	Spring 2005

8. Explain why an increase in aggregate demand when the economy is operating at low levels of output (e.g. a recession) is likely to result in an increase in output with little or no increase in the overall price level.

9. Explain why an increase aggregate demand when the economy is operating at high levels of output is likely to result in an increase in output with large increases in the overall price level.

10. OPEC raises oil prices drastically without warning. Show graphically the effects on the aggregate supply curve. Label AS₂. Label the economy's new equilibrium output (Y₂) and price level (P₂). Label AD₀, AS₀, Y₀, P₀ as your initial conditions. Assume the Fed and Congress does nothing.

11. Technological innovation drastically reduces the cost of production in all industries. Show graphically the effects on the aggregate supply curve. Label AS₃. Label the economy's new equilibrium output (Y₃) and price level (P₃). Label AD₀, AS₀, Y₀, P₀ as your initial conditions. Assume the Fed and Congress does nothing.

12. OPEC raises oil price drastically without warning. The economy is plagued by unemployment. Congress increases government spending and decreases net taxes in order to stimulate the economy. Show the effects of both the supply shock and expansionary fiscal policy on the AD-AS diagram. Label AD₀, AS₀, Y₀, P₀ as your initial conditions before the cost shock and expansionary policies. Label AD₁, AS₁, Y₁, P₁ as your final conditions.