



Name &amp; SID:

Date:

5. Congress lowers government spending (G). Show graphically the effects on the aggregate demand curve. Label  $AD_5$ .

6. Congress raises net taxes (T). Show graphically the effects on the aggregate demand curve. Label  $AD_6$ .

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



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10. OPEC raises oil prices drastically without warning. Show graphically the effects on the aggregate supply curve. Label  $AS_2$ . Label the economy's new equilibrium output ( $Y_2$ ) and price level ( $P_2$ ). Label  $AD_0$ ,  $AS_0$ ,  $Y_0$ ,  $P_0$  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  $AS_3$ . Label the economy's new equilibrium output ( $Y_3$ ) and price level ( $P_3$ ). Label  $AD_0$ ,  $AS_0$ ,  $Y_0$ ,  $P_0$  as your initial conditions. Assume the Fed and Congress does nothing.

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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  $AD_0$ ,  $AS_0$ ,  $Y_0$ ,  $P_0$  as your initial conditions before the cost shock and expansionary policies. Label  $AD_1$ ,  $AS_1$ ,  $Y_1$ ,  $P_1$  as your final conditions.