

ECON2113 Macroeconomics

Chapter 5 Exercises

1. Explain why the classical supply curve is vertical. What are the mechanism that ensure continued full employment of labor in the classical case?
2. How does the Keynesian aggregate supply curve differ from the classical one? Is one of these specifications more appropriate than the other? Explain, being careful to state the time horizon to which your answer applies.
3.
 - a. If the government were to reduce income taxes, how would the reduction affect output and the price level in the short run? In the long run? Show how the aggregate supply and demand curves would be affected, in both cases.
 - b. What is supply-side economics? Is it likely to be effective, given your answer to part a?