

## ECON2113 Macroeconomics

### Chapter 6 Exercises

1. Analyze the effects of a reduction in the nominal money stock on the price level, on output, and on the real money stock when the aggregate supply curve is positively sloped and wages adjust slowly over time.
2. Suppose the Federal Reserve adopts a policy of complete transparency; that is, suppose it announces beforehand how it will change the money supply. According to rational expectations theory, how will this policy affect the Fed's ability to move the real economy (e.g., the unemployment rate)?
3.
  - a. Show, in an aggregate supply and demand framework, the long- and short-run effects of a decline in the real price of materials (a favorable supply shock).
  - b. Describe the adjustment process, assuming that output began at its natural (full-employment) level.
4. Suppose short-run output exceeds full potential output by 3%.
  - a. According to Okun's law, what is the effect on unemployment?
  - b. Assuming that inflationary expectations are constant, what is the effect on wages?