Answer:

1.6 Disagree. This shifting aggregate supply curve results drop in the price level but it will not cause a shift in aggregate demand and move along the aggregate demand curve.

1.7 a. changes in expectations of firms→increase investment→AD curve shift right

2.5 a. A higher price level →a movement along LRAS curve

b. An increase in the labor force would →LRAS curve shift right

c. An increase in the quantity of capital goods →LRAS curve shift right

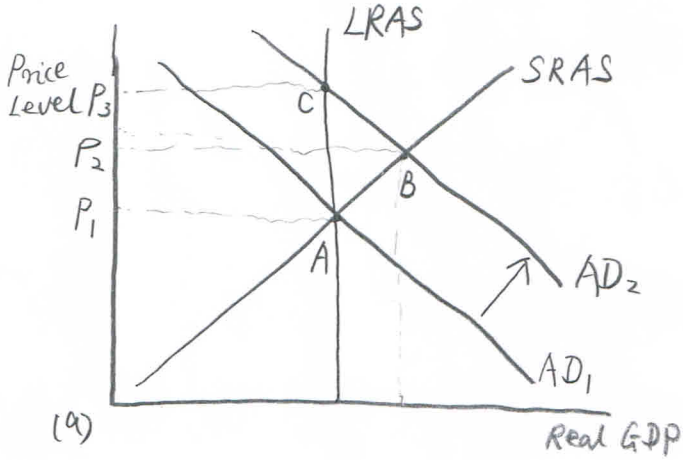
d. Technological change →LRAS curve shift right

2.7 a. A higher price level→ a movement along SRAS curve.

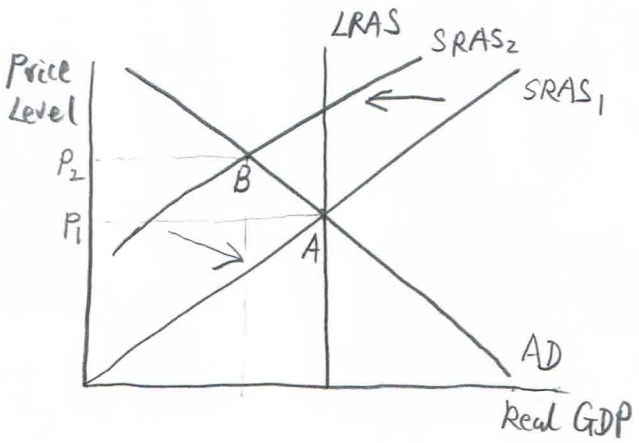
d. An unexpected increase in the price of an important raw material →SRAS curve shift left

e. An increase in the labor force participation rate→SRAS curve shift right

3.4 a. a large increase in demand for U.S. exports→ NX increase → AD shift right and equilibrium move from point A to point B with a higher price level and real GDP. Unemployment rate is lower than it was before the increase in exports. As workers and firms will adjust to the price level being higher than they expected, workers will push for higher wages and firms will charge higher prices, causing SRAS to shift to the left. In the long run, the economy will be in equilibrium at point C with a higher price level and the same level of real GDP.
The unemployment rate will raise.



b. an unexpected increase in the price of oil →this supply shock will increase firms' costs→ increase unemployment and reduce output →SRAS shift left and equilibrium move from point A to point B with a higher price level and lower real GDP. The drop in real GDP and



the increase in unemployment lead workers to accept lower wages and firms to accept lower prices. SRAS shifts from SRAS2 back to SRAS1, and the economy moves from equilibrium at point B back to equilibrium at point A.

3.5 variables that cause a decrease in real GDP:

a. government purchase ↓ → G ↓ →AD shift left

b. personal income tax ↑ →C ↓ → AD shift left

c. exports ↓ → NX ↓ → AD shift left

d. labor force ↓ →less output→SRAS shift left

variables that cause an increase in the price level:

a. interest rate ↑ →C ↓ I ↓ →AD shift left
b. the price of an important natural resource ↑ → cost ↑ →SRAS shift left
c. households' expectation of their future income ↑ →C ↑ →AD shift left
d. predict future price level ↑ →wages and price ↑ →SRAS shift left

3.8 a. Points A and C.

b. Point D represents the short-run equilibrium and point C the long-run equilibrium. Workers and firms will adjust to the price level being higher than they expected. Workers will push for higher wages and firms will charge higher prices, causing SRAS to shift to the left until the economy returns to long-run equilibrium at point C.