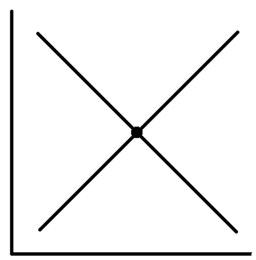
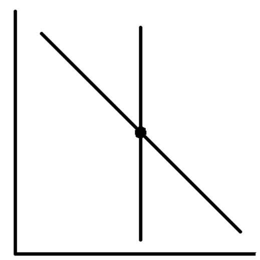
## Shocks to the Economy

1. Suppose households become worried about the future and exogenously save more. The demand for consumption decreases. Illustrate the short-run and long-run effects:

**Short Run**

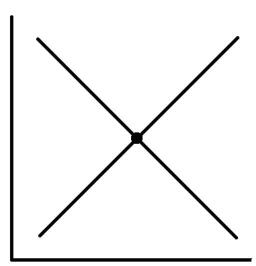


**Long Run**

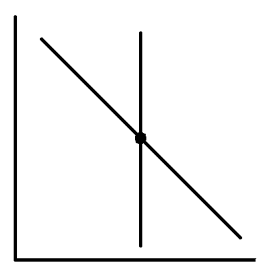


1b. Suppose that demand for consumption decreases AND the government increases the money supply to stimulate consumer spending. Illustrate the short-run and long-run effects:

**Short Run**

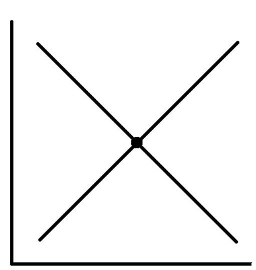


**Long Run**

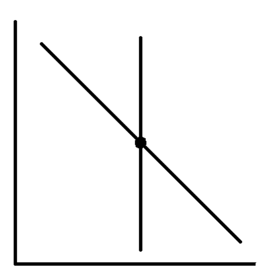


2. Suppose there's a war. The demand for government purchases increases. Illustrate the short-run and long-run effects:

**Short Run**

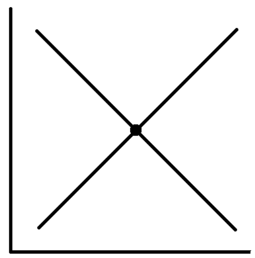


**Long Run**

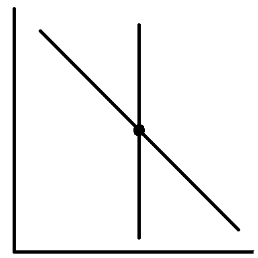


3. Suppose a new technology permanently increases total factor productivity. Illustrate the short-run and long-run effects:

**Short Run**

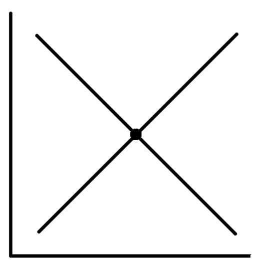


**Long Run**

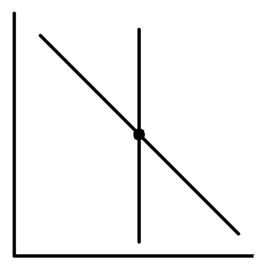


4. Suppose a particularly bad harvest *temporarily* increases the costs of production. Illustrate the short-run and long-run effects:

**Short Run**

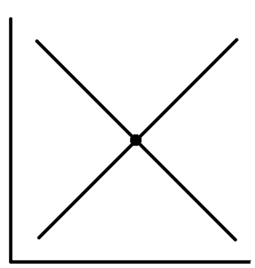


**Long Run**



4b. Suppose there's a bad harvest AND the government increases the money supply to stimulate consumer spending. Illustrate the short-run and long-run effects:

**Short Run**



**Long Run**