Problem Set #5 – ECON 3311, Fall 2024

Due: 11/5, at 11:59pm (via eLearning)

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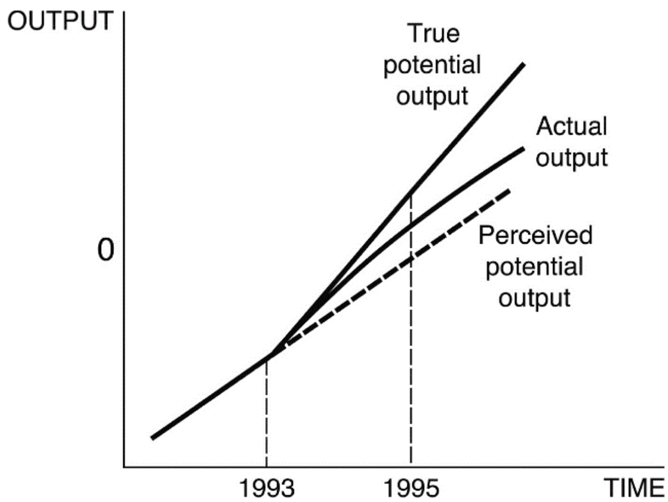
1. **Using the graph below, explain how not estimating potential real GDP (output) accurately can lead to implementing the wrong monetary policy.**



2. **The formula below represents a possible monetary policy rule:**

$$R_t - \bar{r} = \bar{m}(\pi_t - \bar{\pi})$$

Explain what each variable represents and what each side of the equation represents.

3. **Graph the aggregate demand curve. Is the statement "A higher value for $\bar{m}$ leads to a smaller decrease in output when inflation increases" true or false? If it is true, explain why. If it is false, explain how it needs to change to be true.**

4. **The aggregate demand (AD) curve looks a lot like a regular demand curve. However, the reason it slopes down from left to right is different. What is the reason that the AD curve slopes down? <u>Explain</u>.**