A/ ASSIGNMENT RECAP

- Write **a 1000-word report** to analyze a country's economic **data over 5 years**, including GDP, inflation, unemployment, and other metrics.
- Use the **AD-AS model** to discuss the country's **response to COVID-19**.
- Based on the above analysis, provide an economic **analysis and recommend 2 policies** to improve the economy, evaluate ease of implementation and effectiveness.

Suggested Structure:

I.Economic Data Analysis (Suggested 100 words)
II.AD-AS Model Analysis (Suggested 400 words)
- **A.** **Introduction**
- **B.** **Discussion**
- **C.** **Conclusion**
- **III.** **Current State Analysis & Recommendation (Suggested 500 words)**
- **A.** **Current State Analysis**
- **B.** **Policy Recommendation**
- **C.** **Evaluation**

B/ KEYWORD EXPLANATIONS

1. GDP (Gross Domestic Product)
GDP is the sum of gross value of goods and services added by all resident producers in the economy.

2. Inflation
Inflation is the rate of increase in prices over a given period of time. It is measured by the Consumer Price Index (CPI). There are different types and sources of inflation, including:
- **Demand-pull inflation** is caused by an increase in aggregate demand that is faster than aggregate supply. This can happen from things like expansionary monetary policy.
- **Cost-push inflation** is caused by drops in aggregate supply from increases in production costs like wages and raw materials. This leads firms to raise prices.

3. Unemployment
Unemployment is the share of the labor force that is **jobless, actively seeking work, and available for work**. There are different types and sources of unemployment, including:
- **Frictional unemployment**, which occurs when people are between jobs or first entering the labor force as they search for work. This is voluntary and short-term.
- **Structural unemployment**, caused by a mismatch between workers' skills and available jobs. This can result from technological change or geographic immobility.

- **Cyclical unemployment**, occurring when there is insufficient aggregate demand in the economy. It rises during recessions and falls during economic expansions.

4.   AD-AS Model
The AD-AS model shows the relationship between aggregate demand (total spending) and aggregate supply (total production) to determine equilibrium price level and GDP.
- If **aggregate demand (AD)** increases, the AD curve shifts right, leading to higher equilibrium price level and higher GDP. This could represent economic growth.
- If **aggregate supply (AS)** decreases, like from higher production costs, the AS curve shifts left. This leads to a higher price level but lower GDP. This could illustrate stagflation.
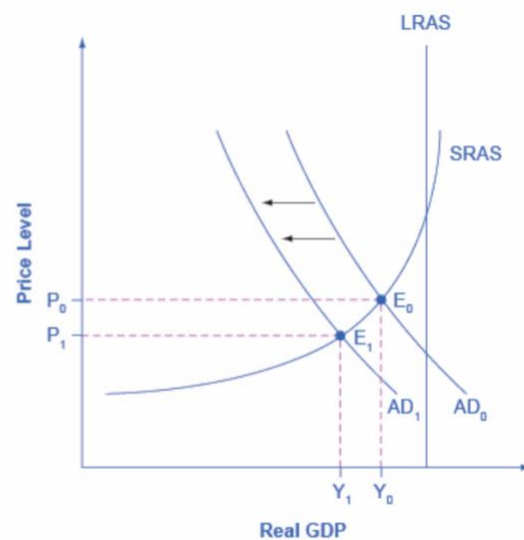
5.   Aggregate demand
Aggregate demand (AD) is the total spending on domestic goods and services in an economy. The AD curve slopes downward, meaning that as the price level falls, the quantity of goods and services demanded rises. There are several factors that can cause the aggregate demand curve to shift, including
- **Consumer spending** - If consumers spend more, AD will shift right. If they spend less, AD shifts left.
- **Spending** - If firms invest more in capital, AD shifts right. Less investment causes a leftward shift.
- **Government spending** - Higher government spending boosts AD to the right. Lower spending shifts AD left.
- **Exports and imports** - More exports or fewer imports shift AD right. More imports or fewer exports cause a left shift.
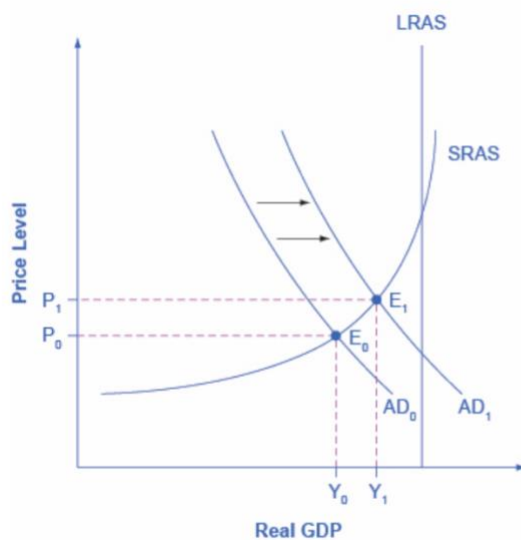
(a) Aggregate demand shifts right   (b) Aggregate demand shifts left

6.   Aggregate supply
Aggregate supply (AS) is the total quantity of goods and services supplied by an economy at different price levels. The AS curve slopes upwards, indicating that as the overall price level rises, firms are willing to supply more real output.

There are several factors that can cause the aggregate supply curve to shift:
- **Resource prices** - Higher wages, raw material costs, etc. mean higher production costs for firms. This causes AS to shift left.
- **Technology** - Improved productivity and efficiency lowers production costs for firms. This shifts AS right.
- **Taxes and subsidies** - Higher business taxes raise production costs, shifting AS left. Subsidies do the opposite.
- **Number of firms** - More firms means greater production capacity, increasing aggregate supply, shifting the curve right.

So the upward slope of the AS curve represents how supply responds to price changes, while shifts depend on input costs, technology, and other supply-side factors.

C/ FOOD FOR HUNGRY THOUGHTS

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2. Hall R (2017) 'Low Interest Rates: Causes and Consequences', International Journal of Central Banking, 13(3): 104-117.
3. IMF (International Monetary Fund) (2022) *Policy Tracker*, IMF website, accessed 11 November 2022. https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19
4. Norges Bank (2022) *MONETARY POLICY REPORT WITH FINANCIAL STABILITY ASSESSMENT 1/2022*, Norges Bank, accessed 11 November 2022. https://www.norges-bank.no/en/news-events/news-publications/Reports/Monetary-Policy-Report-with-financial-stability-assessment/2022/mpr-12022/content/
5. OECD (2017) *OECD Employment Outlook 2017*, OECD Publishing, accessed 12 November 2022. https://www.oecd.org/els/employmentoutlook-previouseditions.htm

Sanchez J and Liborio C (2012) 'The Relationships Among Changes in GDP, Employment, and Unemployment: This Time, It's Different', Economic SYNOPSES, (13), doi:10.20955/es.2012.13