ECO 120-04
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Wednesday 21 November 2022 Your full name: _____

Assignment 9: Aggregate supply and demand

Due Monday 28 November. Please submit hardcopy at the beginning of class (11:00 a.m.), or if you prefer, under the door of Wimberly Hall 339C by 10:50 a.m.

Part A: Recessions and expansions

1. Please define a recessionary period using actual output Y and potential output Y_p.

2. Please define an expansionary period using actual output Y and potential output Y_p.

3. Please define the output gap using actual output Y and potential output Y_p.

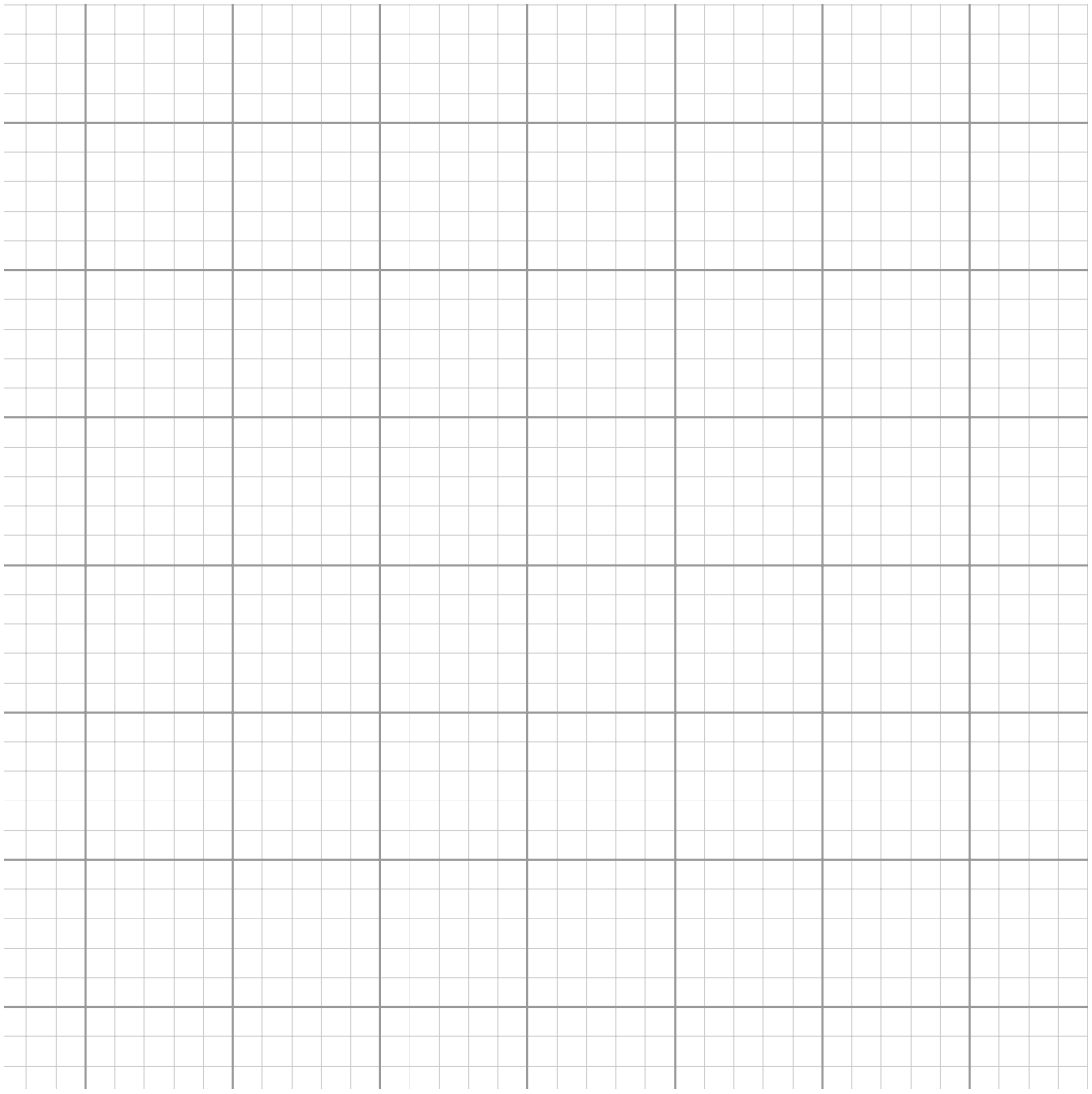
4. Please define a recessionary period using the output gap.

5. Please define an expansionary period using the output gap.

Part B: An economy during a recessionary period

Please graph an economy in a recessionary period using the aggregate supply and demand model.

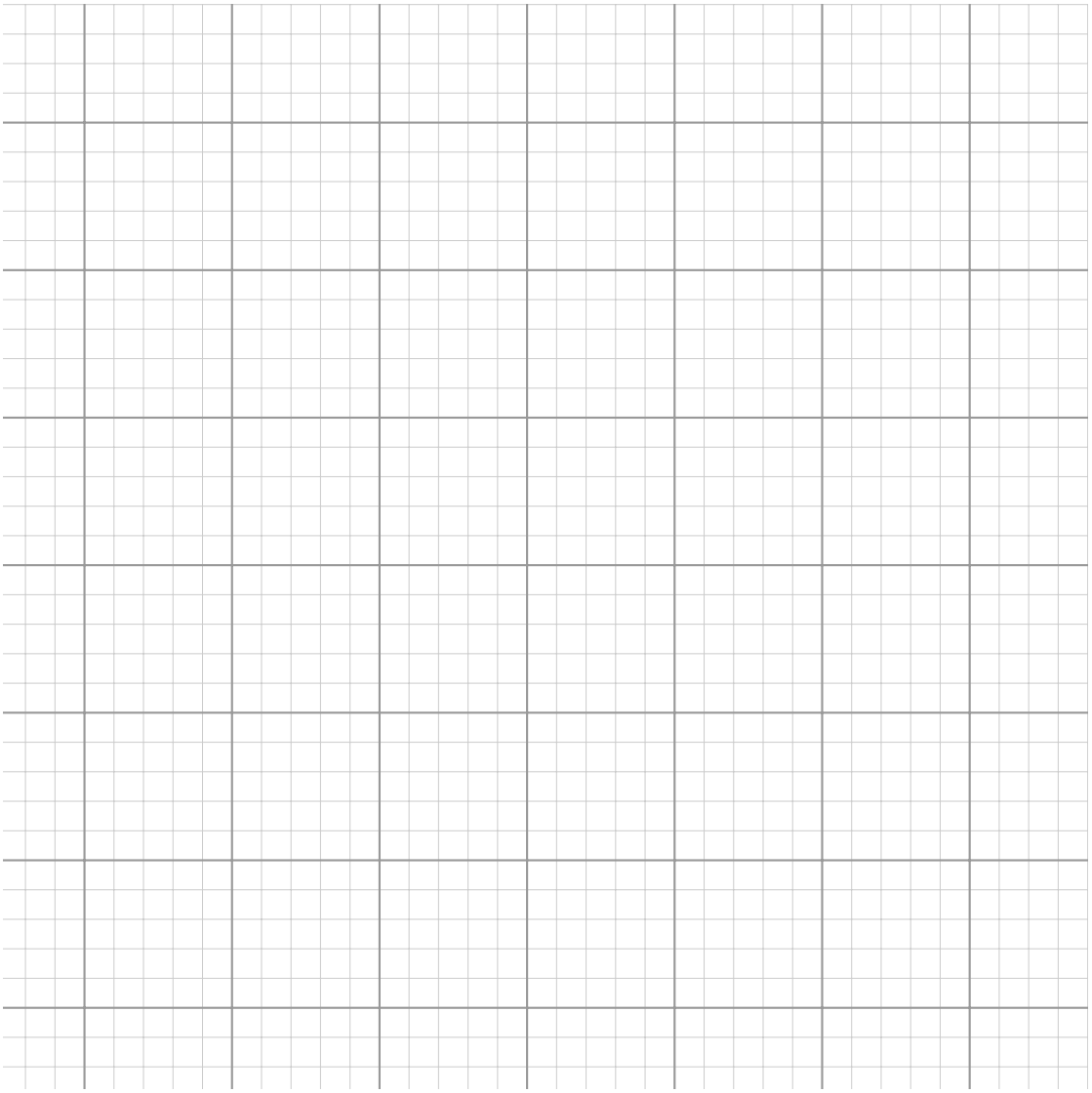
1. Begin by drawing and labeling axes.
2. Draw and label an aggregate demand (AD) and short-run aggregate supply (SRAS) curves.
3. Label the aggregate price level P_0^* and the actual output level Y_0^*.
4. In a recession, is potential output Y_p above or below actual output Y_0^*? _____
5. Add a long-run aggregate supply (LRAS) curve to your graph, and label Y_p.



Part C: An economy during an expansionary period

Please graph an economy in an expansionary period using the aggregate supply and demand model.

1. Begin by drawing and labeling axes.
2. Draw and label an aggregate demand (AD) and short-run aggregate supply (SRAS) curves.
3. Label the aggregate price level P_0^* and the actual output level Y_0^*.
4. In an expansion, is potential output Y_p above or below actual output Y_0^*? _____
5. Add a long-run aggregate supply (LRAS) curve to your graph, and label Y_p.



Part D: The short-run and the long-run

1. What characterizes the short-run in the aggregate supply and demand (AS and AD) model?

2. Which curve shifts as nominal wages change?

3. In which direction does the curve shift *when nominal wages increase*?

   The _____ curve shifts _____.

4. In which direction does the curve shift *when nominal wages decrease*?

   The _____ curve shifts _____.

5. In long-run equilibrium, $Y = Y_p$. Revisit part B, with *an economy in a recessionary period*. Suppose that wages adjust so that the economy returns to long-run equilibrium. Consider what shift would be necessary to make $Y = Y_p$. Graph this shift, and label the new price level P_1^* and new actual output level Y_1^*. Did wages increase or decrease?

6. In long-run equilibrium, $Y = Y_p$. Revisit part C, with *an economy in an expansionary period*. Suppose that wages adjust so that the economy returns to long-run equilibrium. Consider what shift would be necessary to make $Y = Y_p$. Graph this shift, and label the new price level P_1^* and new actual output level Y_1^*. Did wages increase or decrease?