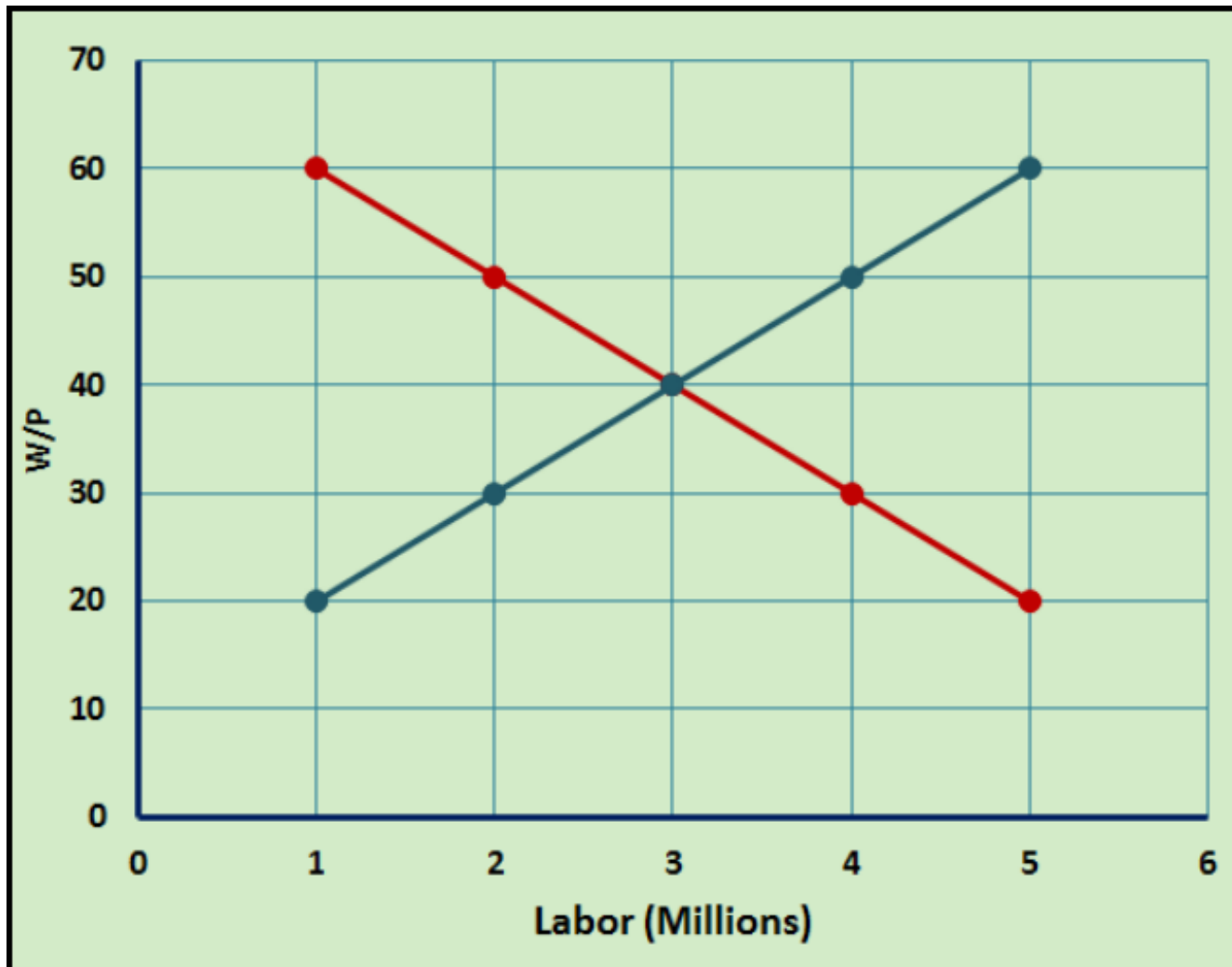
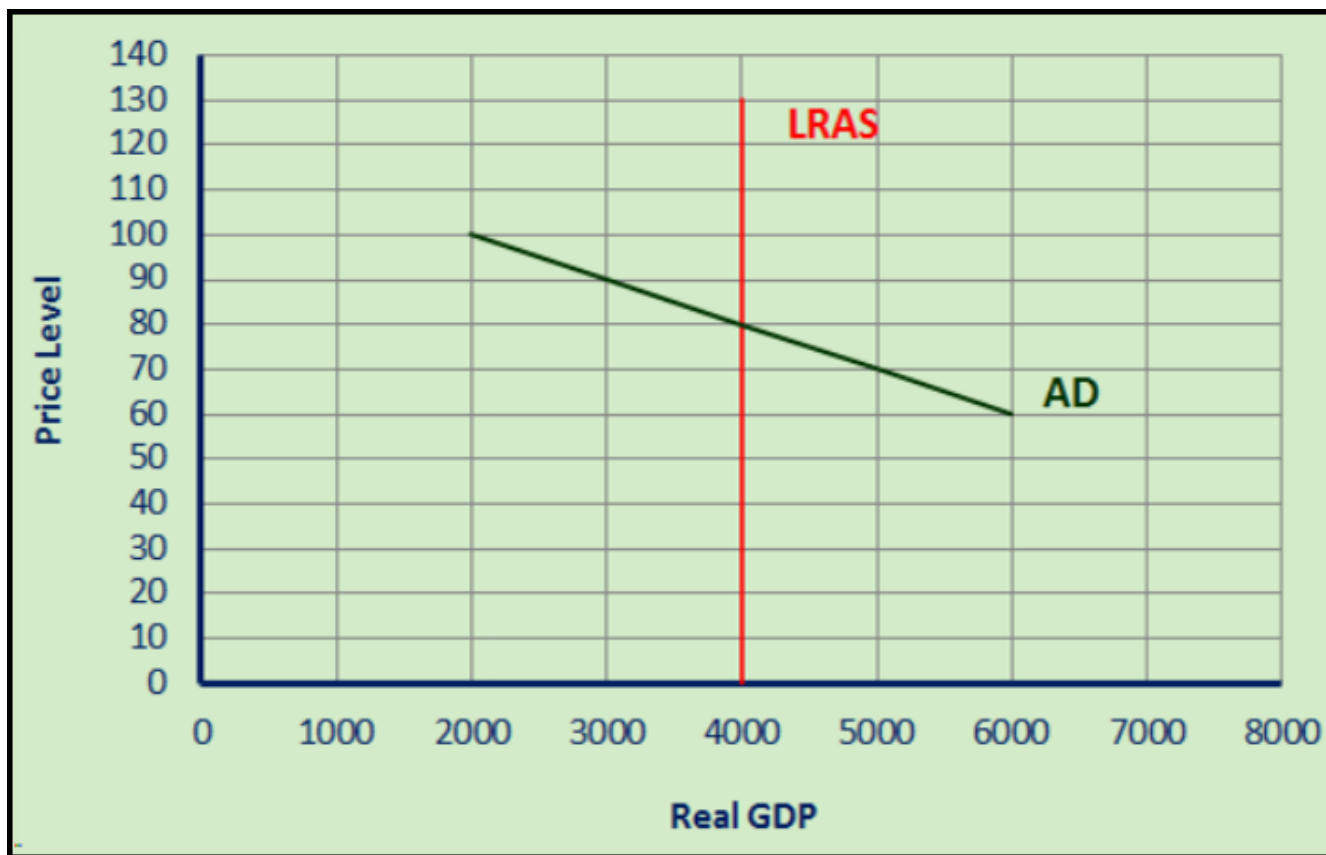


- Problem 1.** The difference between the short run and the long run is that
- (a) in the short run, wages and prices are rigid or “sticky”; whereas they are fully flexible in the long run.
 - (b) in the short run, the labor market always in equilibrium; whereas in the long run it might not be.
 - (c) in the short run, the Federal Reserve targets the demand for loanable funds; whereas in the long run, they target supply of loanable funds.
 - (d) in the long run, we’re all dead.

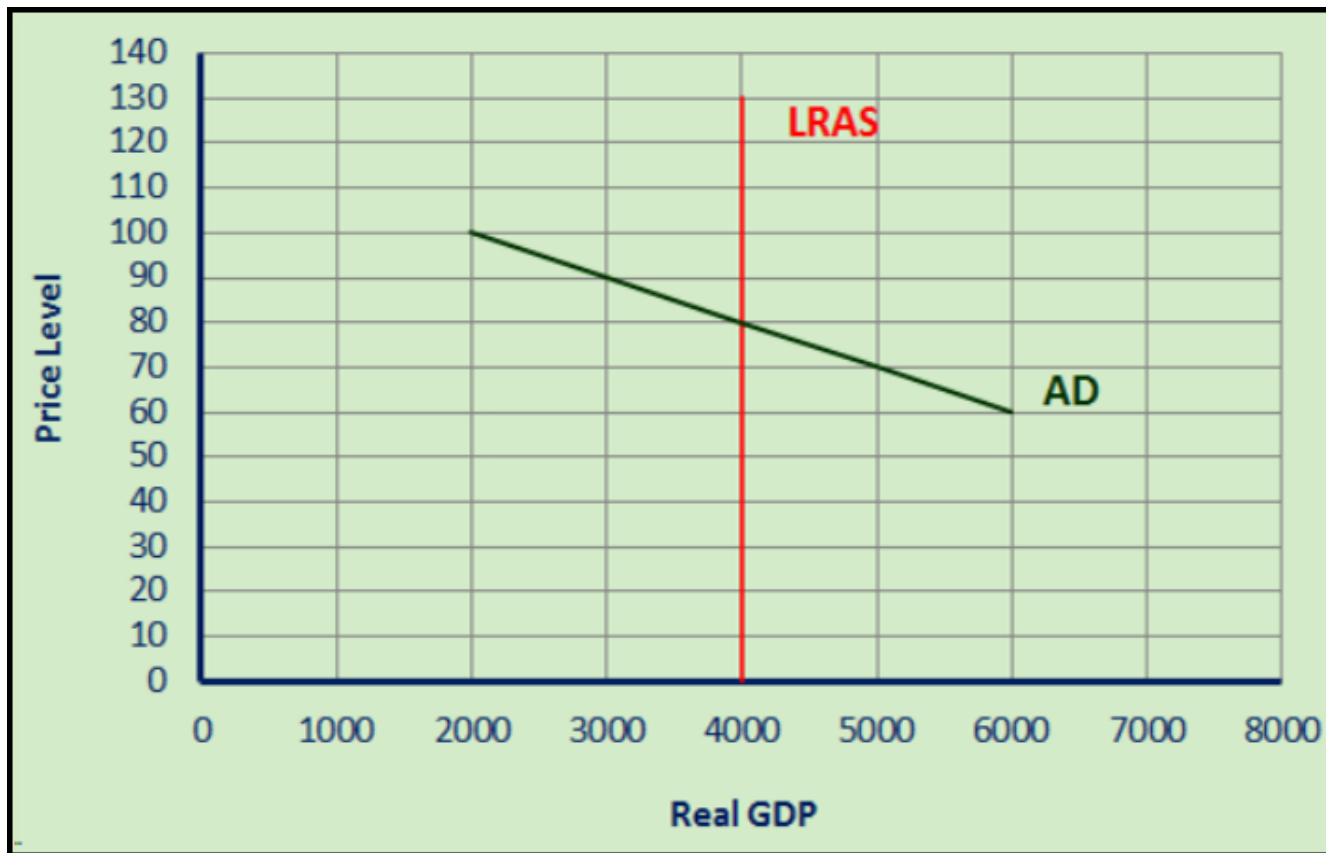
Problem 2. Wages and prices are fully flexible. Currently $P = 1000$. If the price level increases by 5%, the nominal wage will change to what?



Problem 3. Suppose the MPC is 0.75. Currently $Y = 4000$, $C = 1500$, $I = 1500$, $G = 1000$, and $EX - IM = 0$. Suppose that the government increases its purchases by 1000 units. What will be the new long-run equilibrium price level and real GDP? How much private spending will be crowded out?



Problem 4. $MPC = 0.75$. Suppose government engages in a balanced-budget increase of government purchases by 1000. What's the new equilibrium price level and real GDP?



Problem 5. Which of the following accurately describes the effect of an open market sale in the long run?

- (a) $M \uparrow \implies S^{LF} \uparrow \implies r^e \downarrow \implies (C + I) \uparrow \implies AD \uparrow \implies P \uparrow, Y \uparrow$
- (b) $M \downarrow \implies S^{LF} \uparrow \implies r^e \downarrow \implies (C + I) \uparrow \implies AD \uparrow \implies P \uparrow, Y = Y_p$
- (c) $M \downarrow \implies S^{LF} \downarrow \implies r^e \uparrow \implies (C + I) \downarrow \implies AD \downarrow \implies P \downarrow, Y = Y_p$
- (d) $M \downarrow \implies S^{LF} \downarrow \implies r^e \downarrow \implies (C + I) \downarrow \implies AD \uparrow \implies P \downarrow, Y \downarrow$