Q1.

A

**Long-Run Aggregate Supply** **Curve:** is shown as perfectly vertical in the graph, the Real GDP will not be changed. The reason is at this point everything in the economy is assumed to be used optimally. In other words, the cost of inputs and price of the output are equal, so the profit will be zero.

**Intermediate Run Aggregate Supply Curve:**  as an interim between LRAS and SRAS, the MRAS reflects that input prices gradually adjust to output a price. There is time-lag between the adjustment of input price and output prices.

**Short-Run Aggregate Supply Curve:** shows the amount of real GDP supplied increases if the price level rises.

The classical school of thought accentuates the supply-side economy, however, the Keynesian school emphasizes the demand-side economy.

B

Only the non-price level factors can shift/change AS and AD curve. For AD, the factors are expectations, Foreign income and price levels, and fiscal policies. For AS, the factors will be the resource prices, technology, and expectations.

In the macroeconomic, the difference between long-run and short-run equilibriums are the long-run equilibrium happens when three curves intersect(SRAS, LRAS, AD). However, the short-run equilibrium only needs two curves intersect ( SRAS & AD).

In the graph, the points B & C reflect the short-run equilibriums, and the points A & D are the long-run equilibriums.

Q2

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Disposable Income (Yd)** | **Consumption** | **Saving** | **Average propensity to consume** | **Average propensity to save** | **Marginal propensity to consume** | **Marginal propensity to save** |
| $0 | $50 | -$50 | - | - | - | - |
| $100 | $125 | -$25 | 1.25 | -0.25 | 0.75 | 0.25 |
| $200 | $200 | $0 | 1 | 0 | 0.75 | 0.25 |
| $300 | $275 | $25 | 0.92 | 0.08 | 0.75 | 0.25 |
| $400 | $350 | $50 | 0.875 | 0.125 | 0.75 | 0.25 |
| $500 | $425 | $75 | 0.85 | 0.15 | 0.75 | 0.25 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Y(Real GDP)** | **Consumption** | **Investment** | **Government** | **Exports** | **Imports** | **Aggregate Expenditures (AE)** |
| $0 | $70 | $40 | $50 | $45 | $0 | $205 |
| $100 | $150 | $40 | $50 | $45 | $10 | $275 |
| $200 | $230 | $40 | $50 | $45 | $20 | $345 |
| $300 | $310 | $40 | $50 | $45 | $30 | $415 |
| $400 | $390 | $40 | $50 | $45 | $40 | $485 |
| $500 | $470 | $40 | $50 | $45 | $50 | $555 |