

Discussion 06

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Introduction to Macroeconomics

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Reading list: Chapter 25, 27

1. MPC, Multiplier Effect
2. AS-AD Model

Part 1 MPC, MPS, Multiplier Effect

1. If the marginal propensity to consume is 0.75, the value of the multiplier is

- A. 0.75
- B. 4
- C. 5
- D. none of above

2. An increase in the marginal propensity to consume(MPC)

- A. raises the value of the multiplier
- B. lowers the value of the multiplier
- C. has no impact on the value of the multiplier
- D. rarely occurs because the MPC is set by congressional legislation

3. If your disposable income increases from \$50,000 to \$57,500 a year, and your consumption increases from \$25,000 a year to \$28,000 a year, calculate your MPC

AS-AD Model

1. Country A increased its minimum wage. As a result, its SRAS _____ [remained the same/ increased/ decreased], and its LRAS _____ [remained the same/ increased/ decreased]. In the short run, price levels _____ [remained the same/ increased/ decreased]

and production ____ [remained the same/ increased/ decreased]. In the long run, production ____ [remained the same/ increased/ decreased] (compare to the original equilibrium).

2. If government spending rises and taxes fall, the AD curve will shift to the ____ [left/right]. If the economic forecast is rosy, the AD curve will shift to the ____ [left/right]. If the money supply falls, the AD curve shifts to the ____ [left/right].

3. Please Draw the AS-AD Model and fill in the blanks.

Assuming the economy is operating at equilibrium, predict what happens to the equilibrium price level and equilibrium real GDP as a result of:

(a) a decrease in government spending:

Short-Run: RGDP ____ [fall/rise], price level ____ [fall/rise], since wages ____ and unemployment ____ [fall/rise].

Long-run: RGDP ____ [fall/rise], price level ____ [fall/rise], since wages ____ [fall/rise] and unemployment ____ [fall/rise]

(b) a rise in consumption spending due to the stock market boom:

Short-Run: RGDP ____ [fall/rise], price level ____ [fall/rise], since wages ____ and unemployment ____ [fall/rise].

Long-run: RGDP ____ [fall/rise], price level ____ [fall/rise], since wages ____ [fall/rise] and unemployment ____ [fall/rise]

4. Which of the following events shifts the short-run aggregate supply curve to the right?

- A. an increase in government spending on military equipment
- B. an increase in price expectations
- C. a drop in oil prices
- D. none of the above

5. The long-run aggregate supply curve is ____ [horizontal/vertical], because, in the long-run there is ____ [full/incomplete] information, and full adjustment to changes in the price level can occur.