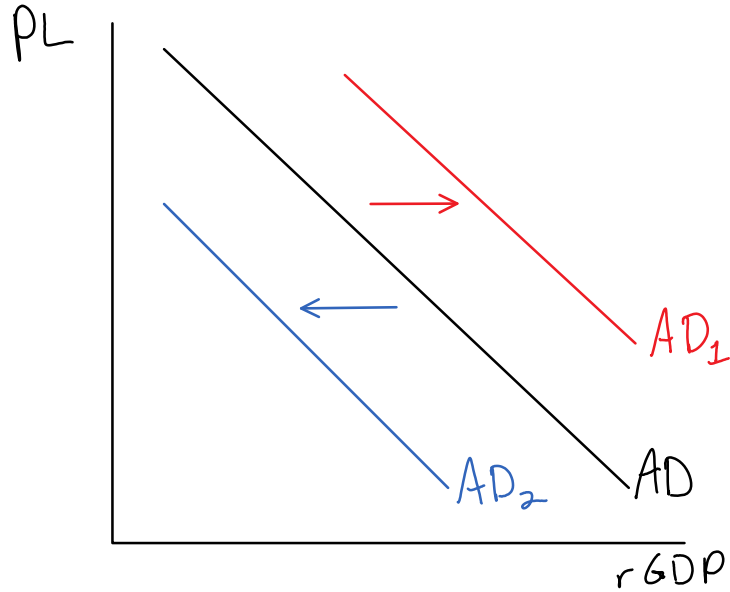


An Introduction to Aggregate Demand

Exercise: Assume the economy begins at AD in the graph on the right. For each of the following, identify which new AD will result from the change described.



1. An increase in labor productivity causes household incomes to rise.
 - a. New AD curve:
 - b. Explanation:
2. Per capita incomes abroad grow more rapidly than incomes at home.
 - a. New AD curve:
 - b. Explanation:
3. Lower energy costs cause the price level of domestically produced goods and services to fall.
 - a. New AD curve:
 - b. Explanation:
4. Government cuts income tax rates on households.
 - a. New AD curve:
 - b. Explanation:
5. A war in the Middle East causes firms to raise the prices they charge for their goods and services.
 - a. New AD curve:
 - b. Explanation:
6. A stock market bubble bursts and share prices tumble.
 - a. New AD curve:
 - b. Explanation:
7. Unexpectedly high inflation reduces the real interest rate on savings and loans.
 - a. New AD curve:
 - b. Explanation:
8. Government, in an effort to balance its budget, reduces spending on infrastructure repairs.
 - a. New AD curve:
 - b. Explanation:

9. Speculation causes international investors to demand more of the nation's currency, causing it to appreciate against the currencies of trading partners.
 - a. New AD curve:

 - b. Explanation:

10. A budget deficit allows a government to spend more this year than it collected in taxes.
 - a. New AD curve:

 - b. Explanation:

11. Due to the threat of rising unemployment, households begin saving increasing percentages of their disposable income.
 - a. New AD curve:

 - b. Explanation:

12. Real estate prices rise at record rates.
 - a. New AD curve:

 - b. Explanation:

13. Demand for foreign automobiles and consumer electronics rises among domestic households .
 - a. New AD curve:

 - b. Explanation:

14. Firms in various industries expect falling prices in the future.
 - a. New AD curve:

 - b. Explanation:

15. Government increases unemployment benefits for unemployed workers.
 - a. New AD curve:

 - b. Explanation: