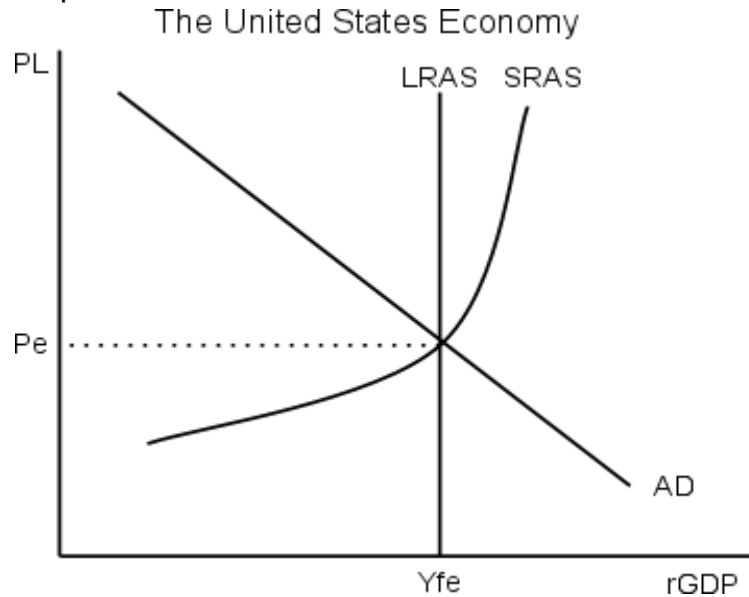


Unit 2.2 The AD/AS Model
Practice Activity

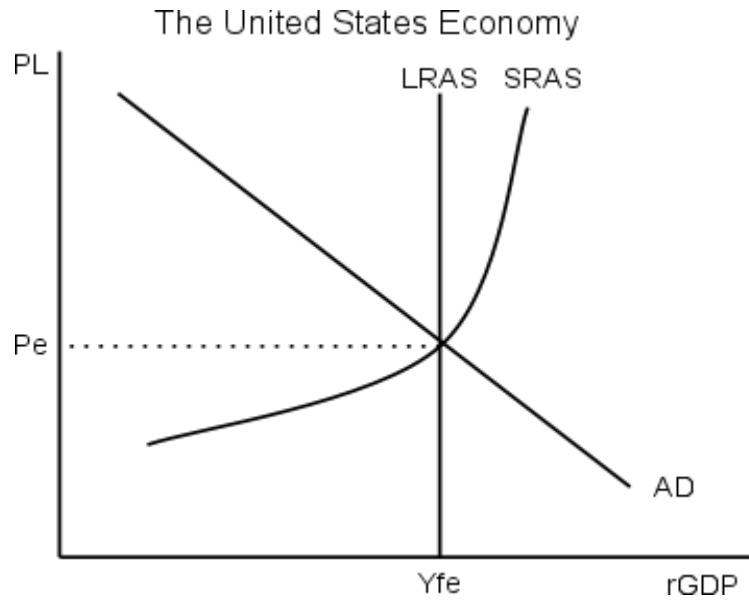
Exercise: For each of the following, illustrate and explain the changes to AD and AS, output, price levels and employment that will occur in the short-run and in the long-run.

1. An increase in stock prices makes households feel wealthier:



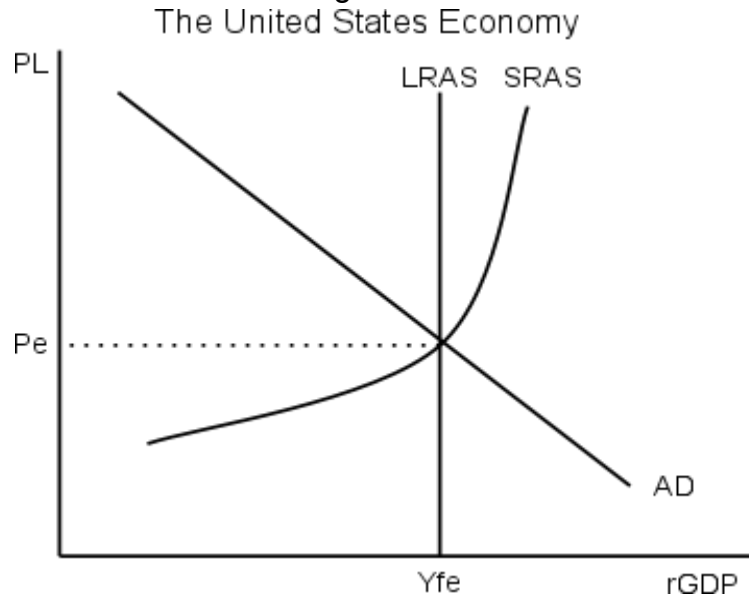
- the short-run:
 - Average price level
 - National income and output
 - Employment
- the long-run:
 - Average price level
 - National income and output
 - Employment

2. A new trade deal with Mexico leads to lower tariffs on Mexican goods and more imports to the United States.



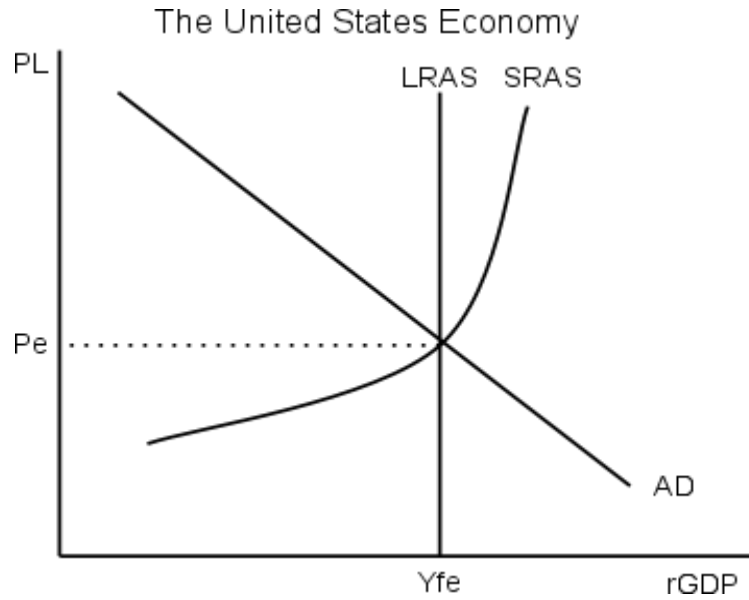
- the short-run:
 - Average price level
 - National income and output
 - Employment
- the long-run:
 - Average price level
 - National income and output
 - Employment

3. The government raises the minimum wage.



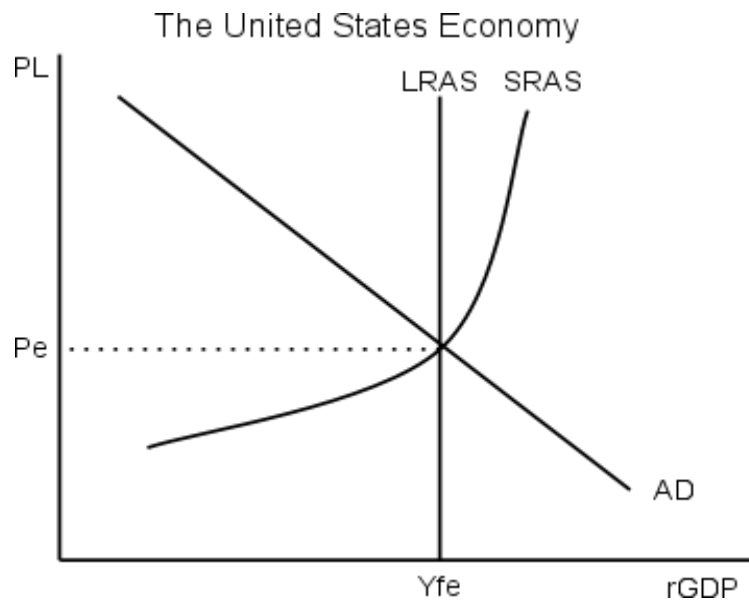
- the short-run:
 - Average price level
 - National income and output
 - Employment
- the long-run:
 - Average price level
 - National income and output
 - Employment

4. A downturn in the real estate market reduces household confidence.



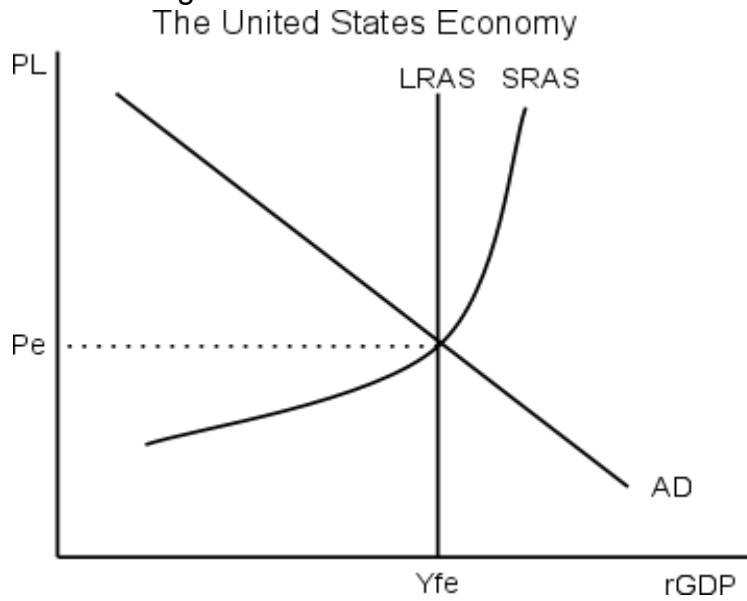
- the short-run:
 - Average price level
 - National income and output
 - Employment
- the long-run:
 - Average price level
 - National income and output
 - Employment

5. Lower interest rates make borrowing money for capital investments more attractive to businesses.



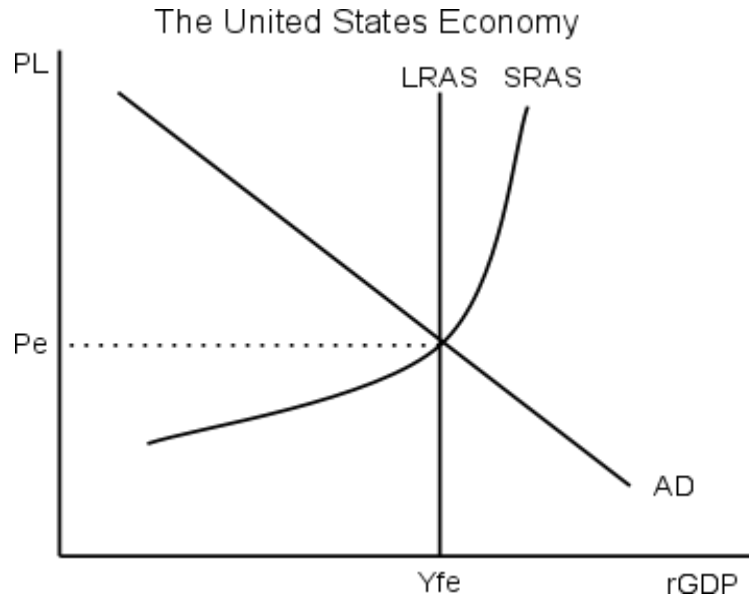
- the short-run:
 - Average price level
 - National income and output
 - Employment
- the long-run:
 - Average price level
 - National income and output
 - Employment

6. A weakening of the value of the US dollar against other major currencies makes American goods more attractive to foreign consumers.



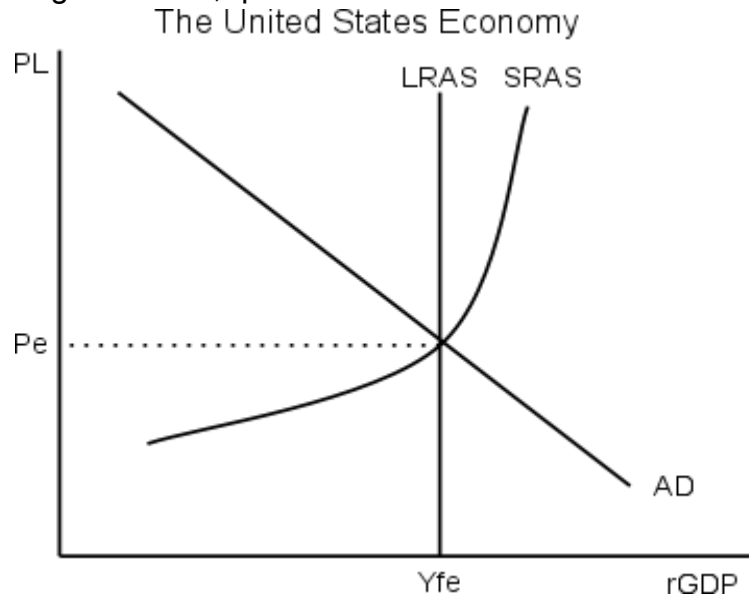
- the short-run:
 - Average price level
 - National income and output
 - Employment
- the long-run:
 - Average price level
 - National income and output
 - Employment

7. The US government increases its spending on infrastructure, which increases efficiency and reduces costs for most American businesses.



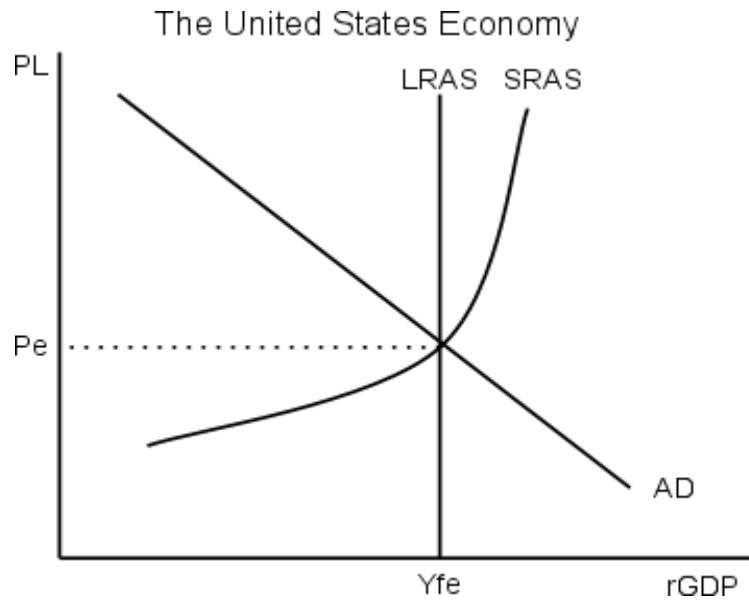
- the short-run to:
 - Average price level
 - National income and output
 - Employment
- the long-run to:
 - Average price level
 - National income and output
 - Employment

8. Education spending by state and federal government is reduced, which over time makes it harder for firms to higher skilled, qualified workers.



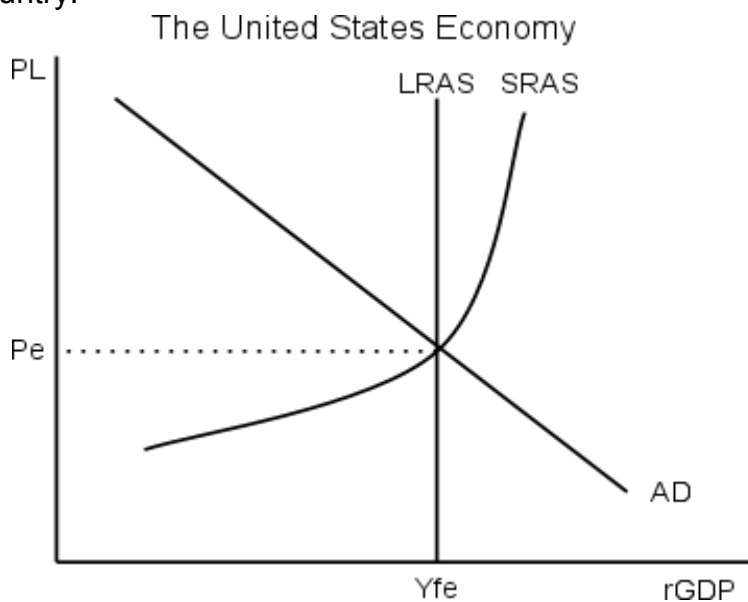
- the short-run:
 - Average price level
 - National income and output
 - Employment
- the long-run:
 - Average price level
 - National income and output
 - Employment

9. Looser immigration laws lead to an increase in the labor force, putting downward pressure on wages.



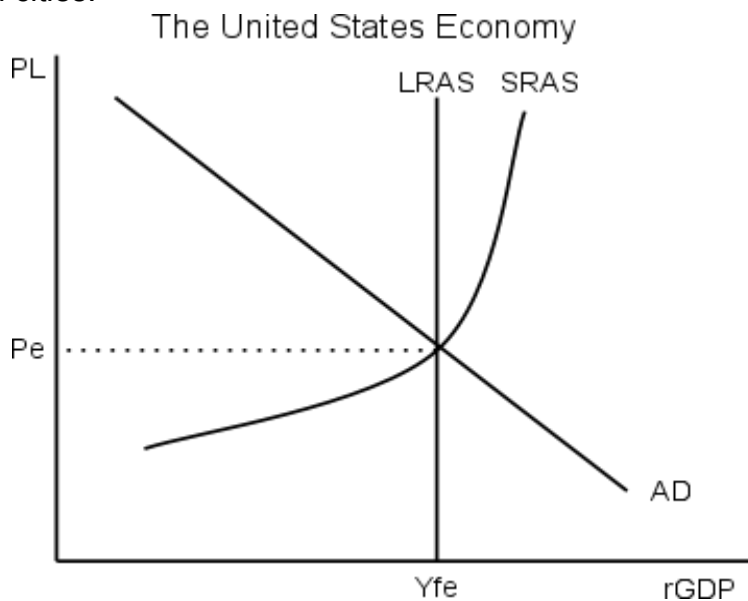
- the short-run:
 - Average price level
 - National income and output
 - Employment
- the long-run:
 - Average price level
 - National income and output
 - Employment

10. Improvements in technology increase households' real incomes and improve the productivity of labor in the country.



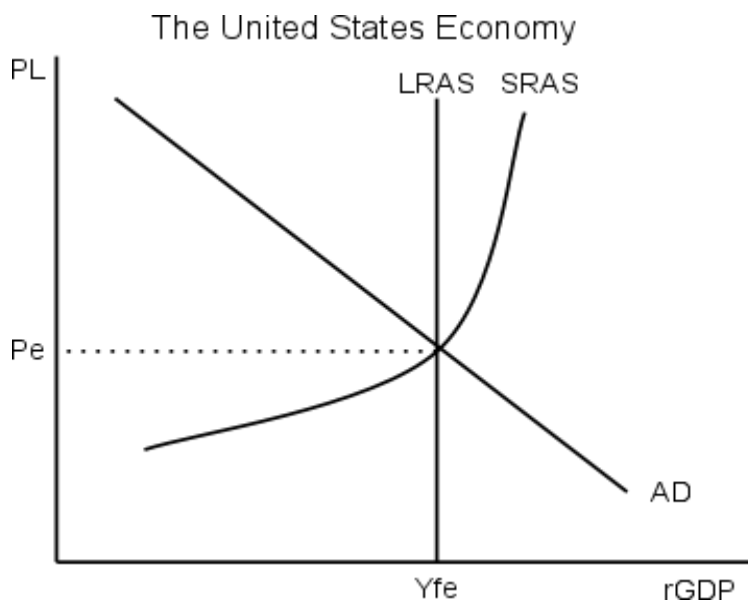
- the short-run:
 - Average price level
 - National income and output
 - Employment
- the long-run:
 - Average price level
 - National income and output
 - Employment

11. A hurricane destroys several off-shore oil rigs, leading to higher transportation and energy prices. Soon after, the government announces a multi-billion dollar spending plan to rebuild damaged coastal cities.



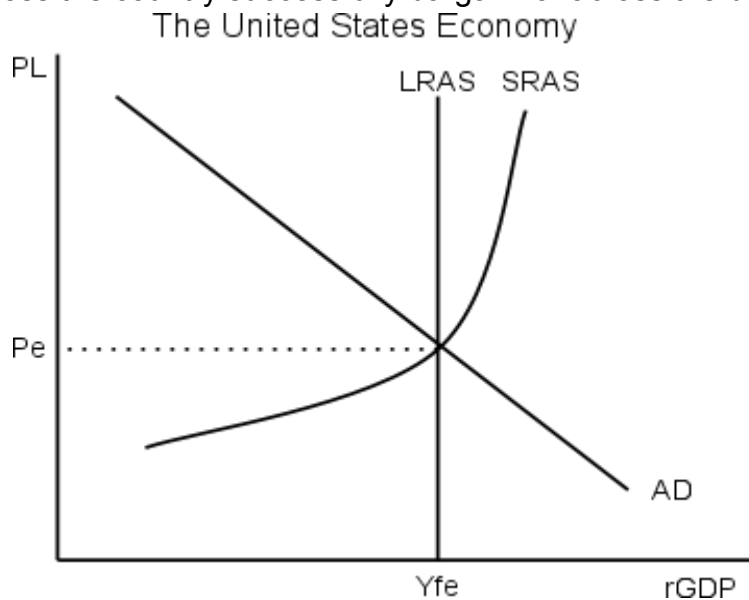
- the short-run:
 - Average price level
 - National income and output
 - Employment
- the long-run:
 - Average price level
 - National income and output
 - Employment

12. Government spending on unemployment benefits and health care for out of work Americans is slashed.



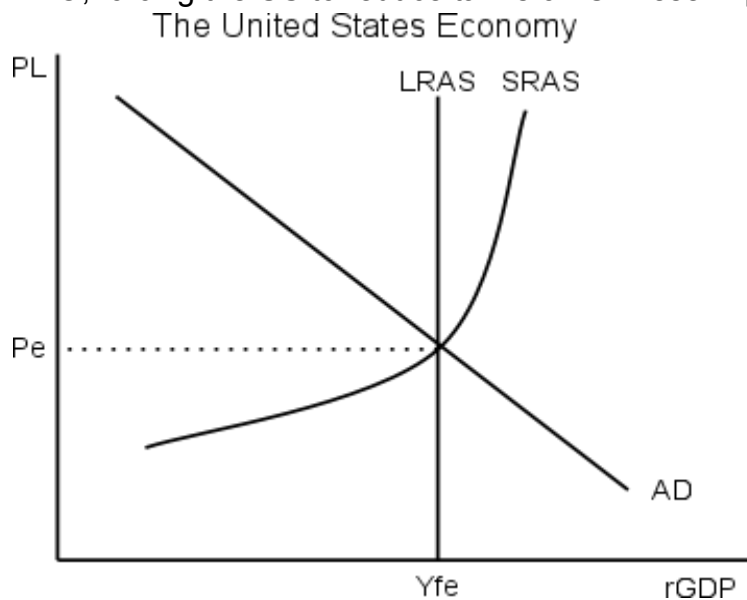
- the short-run:
 - Average price level
 - National income and output
 - Employment
- the long-run:
 - Average price level
 - National income and output
 - Employment

13. Labor unions across the country successfully bargain for across the board wage increases.



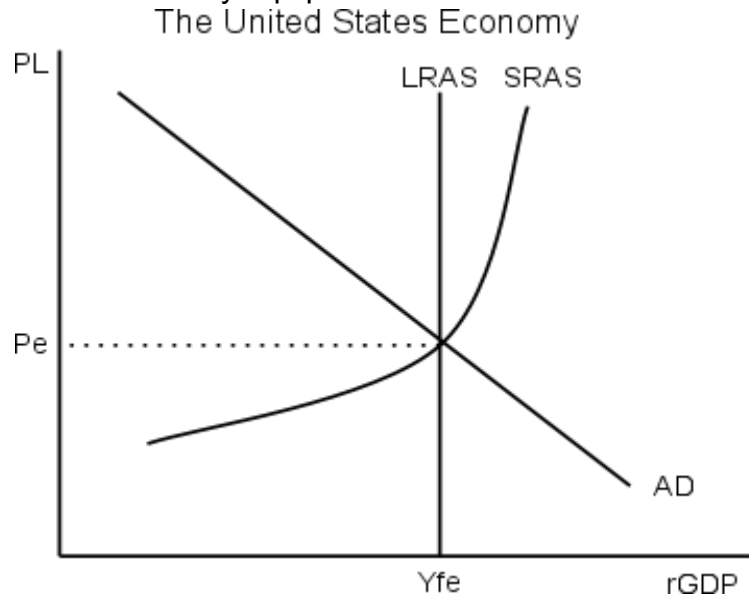
- the short-run:
 - Average price level
 - National income and output
 - Employment
- the long-run:
 - Average price level
 - National income and output
 - Employment

14. China enters the WTO, forcing the US to reduce tariffs on Chinese imports.



- the short-run:
 - Average price level
 - National income and output
 - Employment
- the long-run:
 - Average price level
 - National income and output
 - Employment

15. A conflict in the middle east drives energy prices up while the government places orders for nearly \$100 billion of new military equipment from American manufacturers.



- the short-run:
 - Average price level
 - National income and output
 - Employment
- the long-run:
 - Average price level
 - National income and output
 - Employment