

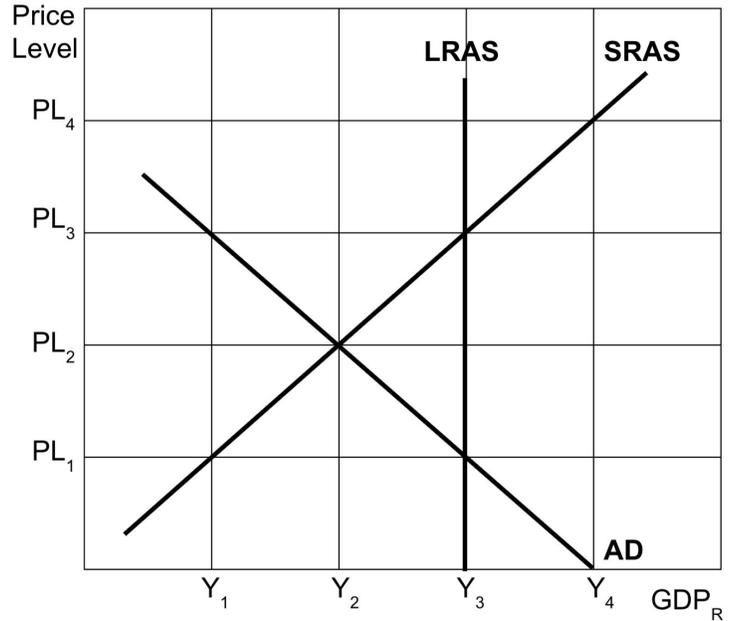


Macroeconomics

Unit 3 Practice Sheet

Part 1: Aggregate Demand and Supply- Use the graph to the right to answer the questions.

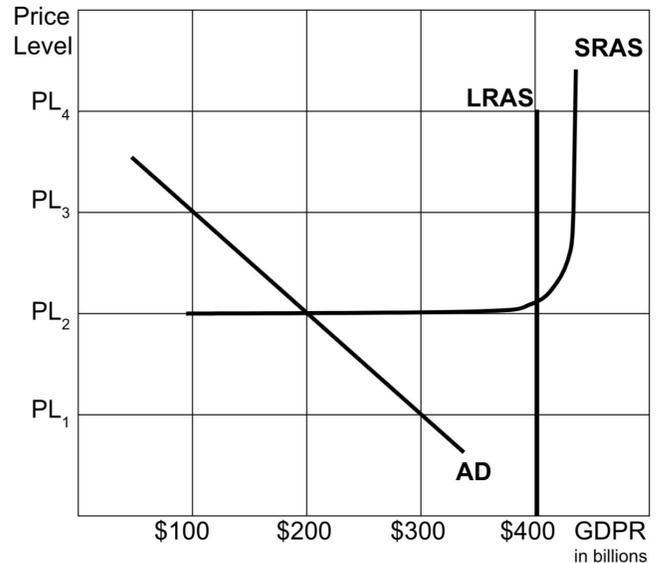
1. What is the short-run equilibrium price level and output?
2. Identify the short-run equilibrium price level and output if consumer spending fell?
3. Identify the short-run equilibrium price level and output if investment increased?
4. Identify the short-run equilibrium price level and output after a negative supply shock?
5. If the real GDP was Y_3 , what types of unemployment would exist?



6. If the real GDP was Y_2 , what types of unemployment would exist?
7. Identify the **long-run** equilibrium price level and output if wages and resource prices are flexible.
8. Assume wages and resource prices are flexible and that the economy reached long-run equilibrium. What would be the **long-run** equilibrium output if there was increase in consumer spending?

Part 2: Multiplier Practice- Use the graph to the right to answer the questions.

9. If an increase in consumer spending of \$10 billion would increase real GDP to \$300 billion, what is the marginal propensity to **consume**?
10. Assume the MPC was .8 instead. What is the least amount the government could spend to get the real GDP from \$200 to \$400 billion?
11. Assume the MPC is .5 instead. What is the least amount the government could cut taxes to get the real GDP from \$200 to \$400 billion?
12. Why does SRAS eventually become vertical?





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Part 3: More Multiplier Practice- Fill in the chart with the MPC, MPS, simple spending multiplier, and the maximum change in spending that occurs as a result of each of the following changes in consumption.

	Change in Consumption (in billions)	MPC	MPS	Multiplier	Total Change in Spending (in billions)
13.	+\$100	0.8			
14.	-\$100		0.1		
15.	+\$300				+\$1200
16.				2	-\$3,000

Part 4- FRQ Practice- Complete the following question from the 2019 AP exam (Question 1).

1. Canada is an open economy that is currently in a recessionary output gap.
 - (a) Draw a correctly labeled graph of the long-run aggregate supply, short-run aggregate supply, and aggregate demand curves, and show each of the following.
 - (i) The current equilibrium real output and price level, labeled as Y_1 and PL_1 , respectively
 - (ii) Full-employment output, labeled Y_f
 - (b) The central bank and the government do not take any policy actions to close the output gap.
 - (i) Explain how the economy will adjust to full employment in the long run.
 - (ii) On your graph in part (a), show how the economy adjusts to full employment in the long run.
 - (c) Suppose the Canadian government is unwilling to wait for the long-run adjustment process. The marginal propensity to consume is 0.8. The equilibrium real output is \$500 billion and the full-employment output is \$540 billion.
 - (i) Calculate the minimum change and indicate the direction of change in government spending required to shift the aggregate demand curve by the amount of the output gap.
 - (ii) Calculate the minimum change and indicate the direction of change in taxes required to shift the aggregate demand curve by the amount of the output gap.