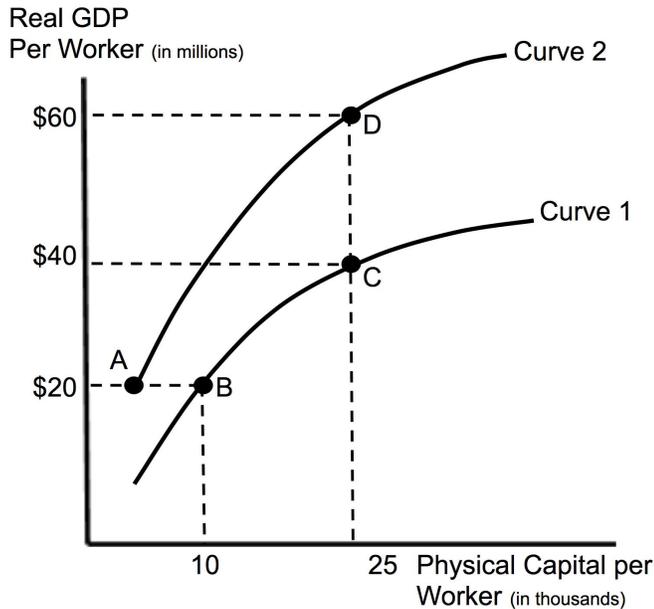




Macroeconomics

Unit 5 Practice Sheet

Part 4- Production Function- Use the aggregate production function below to answer the questions.



12. Why don't additional amounts of physical capital increase output at a constant rate?

13. Using points on the graph, show the result of an increase in physical capital. How will this affect real GDP?

14. Using points on the graph, show the result of a significant improvement in technology? Explain.

15. Will a significant improvement in human capital move along the curve or shift the curve? Why?

Part 5- FRQ Practice- Complete the following question from the 2019 AP exam (Question 2).

2. Assume the expected inflation rate in a country is 3%, the current unemployment rate is 6%, and the natural rate of unemployment is 4%.
- Draw a correctly labeled graph of the short-run and long-run Phillips curves. Label the current short-run equilibrium as point X and plot the numerical values above on the graph.
 - Is the actual inflation rate greater than, less than, or equal to the expected inflation rate of 3%?
 - Assume loans were made taking into account the expected inflation rate of 3%. Will lenders be better off or worse off after they realize the actual inflation rate identified in part (b)? Explain.
 - Based on the relationship between the actual and the expected inflation rates identified in part (a), what will happen to the natural rate of unemployment in the long run?