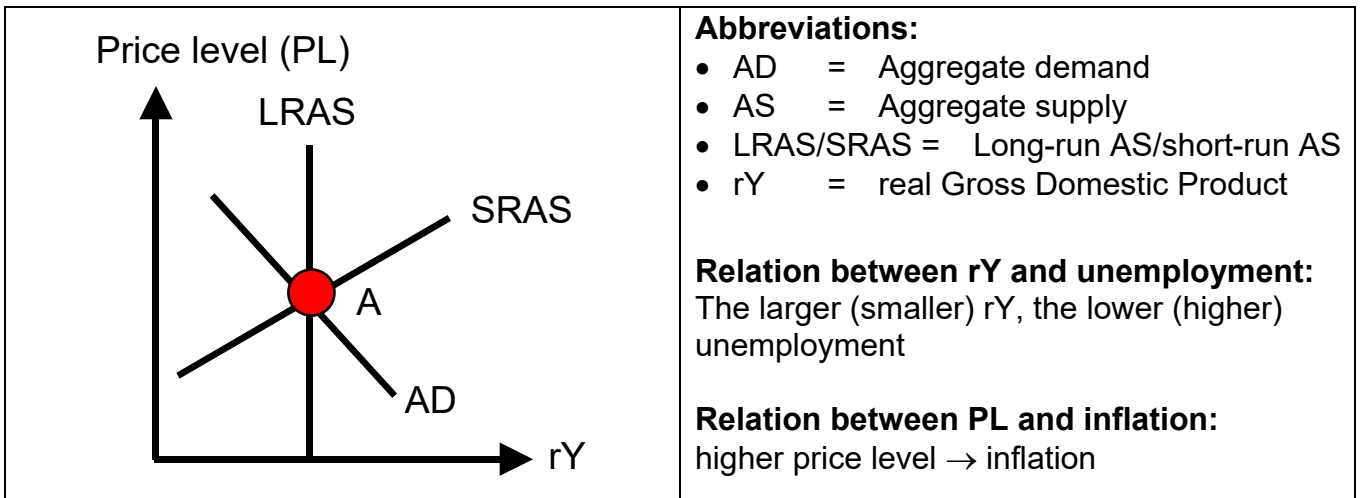


Questions *Macroeconomics* (with answers)

7 AD-AS model

The following **long-run equilibrium** is assumed:



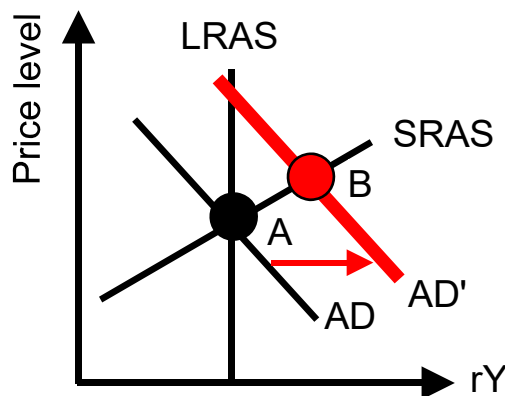
01 Composition of AD

Which are the components of AD?

02 Movements along AD versus shifts of AD

What is the difference between movements along the AD curve and shifts of the AD curve?

03 Shifts of the AD curve to the right

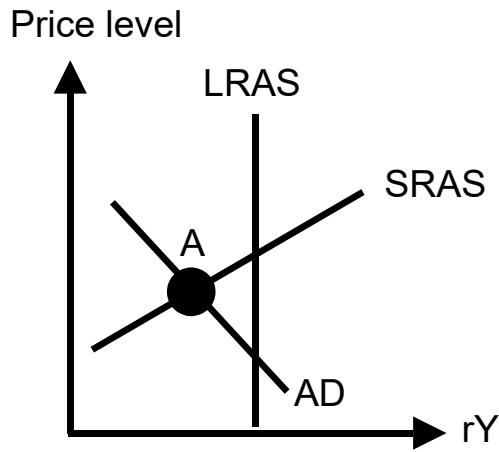


Questions:

- 1 Why does the AD curve shift to the right? Mention possible reasons.
- 2 What happens to inflation and to unemployment (comparison B with A)?

04	<p>Effects of a stock market crash</p> <p>Starting from the long-run equilibrium, show the short-run effects of a stock market crash on AD, inflation and unemployment by using a graph. Give a reason for the change in AD.</p>
05	<p>Effects of the slaughter of farm animals out of necessity</p> <p>As a result of a communicable disease, livestock must be slaughtered urgently. Starting from the long-run equilibrium, show the short-run effects of this emergency slaughtering on AS, inflation and unemployment in a graph. Mention the effects.</p>
06	<p>Shifts of the AD curve and the SRAS curve</p> <p>The following shifts are possible:</p> <ul style="list-style-type: none"> • Shift in AD to the right • Shift in AD to the left • Shift in SRAS to the right • Shift in SRAS to the left <p>Question: Which possibilities have an impact on inflation, which possibilities impact higher unemployment?</p>
07	<p>Shifts of the AD curve and the SRAS curve</p> <p>There are the following events:</p> <ol style="list-style-type: none"> ① A reduction in income taxes ② A higher price level (inflation) ③ A technological progress in production ④ An additional government spending ⑤ A strong increase in wages <p>Question: Is there a shift of the AD curve or the SRAS curve? If so, does the curve shift to the right or to the left?</p>
08	<p>From the short-run equilibrium to the long-run equilibrium</p> <p>Question about the graph on page 3: How can the long-run equilibrium be achieved if</p> <ol style="list-style-type: none"> 1 wages and other production costs are flexible; 2 wages and other production costs are rigid? <p>Answer with graphs and in words.</p>

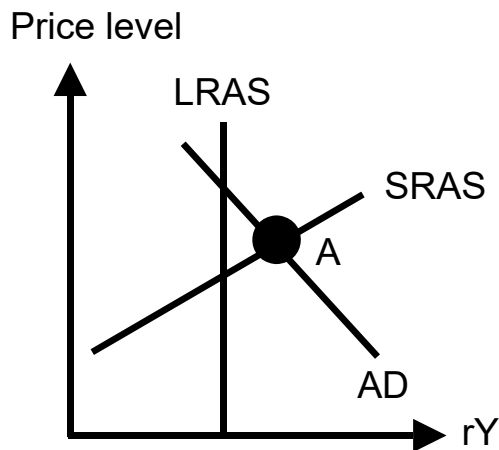
08



09 From the short-run equilibrium to the long-run equilibrium

Question about the following graph:

How can an economy return to the long-run equilibrium if it faces a boom and if wages are **flexible**? Answer with a graph and justify your answer.



10 Shift of the long-run AS curve

It is observed in a country that the long-run AS curve has been shifted to the right.

Explain why this could have happened.

11 Unemployment

A shift of the SRAS curve or a shift of the AD curve can cause higher unemployment. Show these situations in two graphs, each starting from the long-run equilibrium.

12 Shifts of the AD curve and the SRAS curve

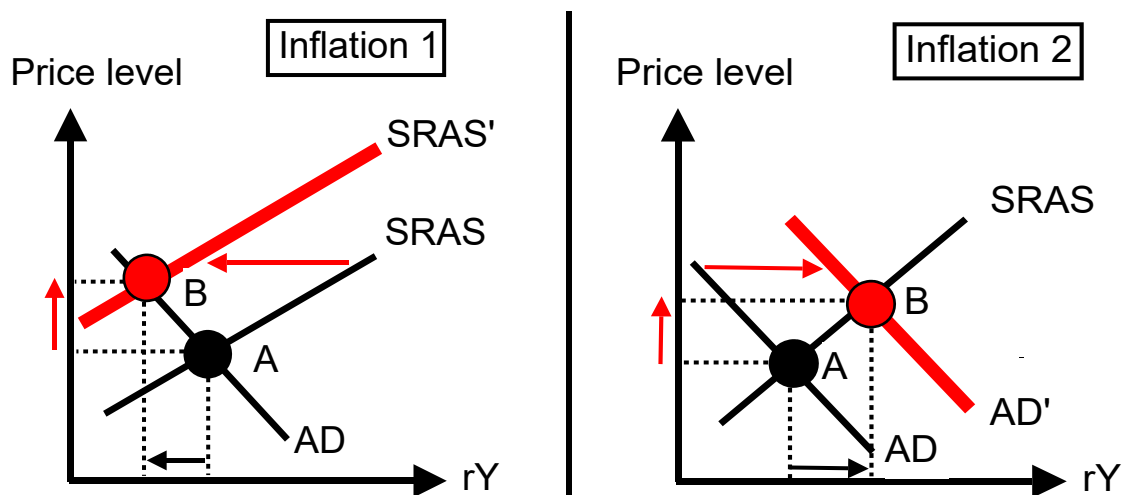
How can the following results be obtained by shifting the AD curve or the SRAS curve or both curves? Answer with graphs.

Results to be shown in two graphs:

- ① Unemployment and price level lower (deflation)
- ② Unemployment higher, price level unchanged

13 Types of inflation

Two different types of inflation are presented here:



Questions:

What are the causes of inflation, and what are the effects on rY and on unemployment?

14 AD curve and SRAS curve

It is assumed that the AD curve shifts to the right. Now follows a statement about this process: "The effects of such a shift in AD on inflation and on unemployment depend on the slope of the SRAS curve". Explain this statement using two graphs (horizontal SRAS curve / vertical SRAS curve).

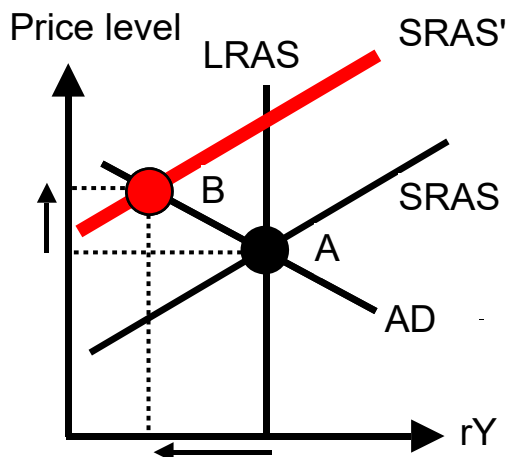
15 Supply and demand shocks

In the context of a pandemic (e.g. Corona crisis in 2020) there is both a supply shock (interruption of supply chains) and a demand shock (decline in demand due to curfews).

What effects on inflation and on unemployment can be expected if the demand shock far exceeds the supply shock? Answer using an AD-SRAS graph.

16 Phillips curve and AD-AS model

Compare the movement from A to B in the light of the Phillips curve (more inflation → less unemployment and less inflation → more unemployment)



17 Monetary policy and AD-AS model

In a recession phase, the central bank increases the supply of money. This measure has an impact on inflation and on unemployment through the interest rate mechanism.

Show in two graphs (Money market / LRAS, SRAS, AD) how the interest rate mechanism has an impact on inflation and on unemployment during a recession. Describe the interest rate mechanism.

→ [Answers. Click here!](#)