# Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. \_\_\_\_/10

2. \_\_\_\_/06

3. \_\_\_\_/04

4. \_\_\_\_/20

Total: \_\_\_\_\_\_/40

# 

# Hour: \_\_\_\_\_

## Economics Problem Set #5

**Aggregate Demand, Aggregate Supply and Fiscal & Monetary Policy**

1. ( \_\_\_\_/10) **Aggregate Demand and Aggregate Supply**
   1. Define and give examples of the determinants of aggregate demand. ( \_\_\_\_/3)
   2. Define and give examples of the determinants of aggregate supply. ( \_\_\_\_/3)
   3. Graph the following curves (on the same graph): AD, SRAS and LRAS. Make sure to correctly label the axes. ( \_\_\_\_/4)
2. ( \_\_\_\_/6) **Key Concepts**

Define and explain each concept and give specific examples:

* 1. Discretionary budget ( \_\_\_\_/1)
  2. Crowding Out ( \_\_\_\_/1)
  3. Four types of budgetary lag ( \_\_\_\_/2)
  4. Keynesian Economics [pronounced: **CANE-z-ann**] ( \_\_\_\_/1)
  5. Classical Economics ( \_\_\_\_/1)

1. ( \_\_\_\_/4 Points) **Fiscal Policy**
   1. Explain the difference between expansionary and contractionary fiscal policies. Explain their goals and give specific examples. ( \_\_\_\_/2)
   2. To support your answer in part (a), draw a recessionary gap and an inflationary gap. Draw and explain how fiscal policy is used to close the gaps. ( \_\_\_\_/2)
2. Finish the following pages for the problem set: AS/AD Practice Graphs ( \_\_\_\_/20)

**AD/AS PRACTICE**

|  |  |  |
| --- | --- | --- |
| The Change | **AD/AS Model** | **The Result** |
| **1. Calvin, and other children, convince their parents to purchase more “big ticket” items for the Holidays.** |  | **1. Before: A**  **2. Shifter**  **3. After: B**  **4. Gap:** |
| **2. The effect on production when a 5% excise tax is placed on several resources.** |  | **1. Before: A**  **2. Shifter**  **3. After: B**  **4. Gap:** |
| **3. A large purchase of U.S. wheat by Russia** |  | **1. Before: A**  **2. Shifter**  **3. After: B**  **4. Gap:** |
| **4. A cut in Federal spending for Health Care** |  | **1. Before: A**  **2. Shifter**  **3. After: B**  **4. Gap:** |
| **5. The complete disintegration of OPEC causing oil prices to fall** |  | **1. Before: A**  **2. Shifter**  **3. After: B**  **4. Gap:** |
| **6. A 10% decrease in personal income tax rates** |  | **1. Before: A**  **2. Shifter**  **3. After: B**  **4. Gap:** |

**AD/AS PRACTICE SHEET**

|  |  |  |
| --- | --- | --- |
| The Change | **AD/AS Model** | **The Result** |
| **7. A significant increase in labor productivity** |  | **1. Before: A**  **2. Shifter**  **3. After: B**  **4. Gap:** |
| **8. A severe recession in a country that imports many U.S. products.** |  | **1. Before: A**  **2. Shifter**  **3. After: B**  **4. Gap:** |
| **9. The effect on investment when the government increases the money supply causing interest rates to fall.** |  | **1. Before: A**  **2. Shifter**  **3. After: B**  **4. Gap:** |
| **10. Widespread fear of depression on the part of consumers** |  | **1. Before: A**  **2. Shifter**  **3. After: B**  **4. Gap:** |
| **11. To stimulate the economy, the government increases spending on public works programs.** |  | **1. Before: A**  **2. Shifter**  **3. After: B**  **4. Gap:** |
| **12. A 12% decrease in nominal wages.** |  | **1. Before: A**  **2. Shifter**  **3. After: B**  **4. Gap:** |