

Name: _____

Hour: _____

1. ____/10
2. ____/06
3. ____/04
4. ____/20
Total: _____/40

Economics Problem Set #5

Aggregate Demand, Aggregate Supply and Fiscal & Monetary Policy

1. (____/10) **Aggregate Demand and Aggregate Supply**
 - a. Define and give examples of the determinants of aggregate demand. (____/3)
 - b. Define and give examples of the determinants of aggregate supply. (____/3)
 - c. 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:

 - a. Discretionary budget (____/1)
 - b. Crowding Out (____/1)
 - c. Four types of budgetary lag (____/2)
 - d. Keynesian Economics [pronounced: **CANE-z-ann**] (____/1)
 - e. Classical Economics (____/1)

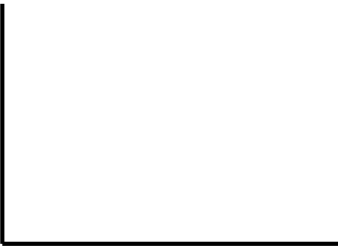


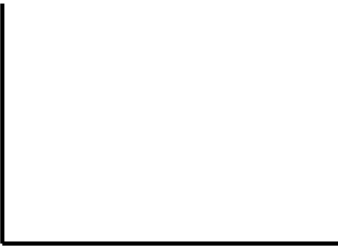


3. (____/4 Points) **Fiscal Policy**
 - a. Explain the difference between expansionary and contractionary fiscal policies. Explain their goals and give specific examples. (____/2)
 - b. To support your answer in part (a), draw a recessionary gap and an inflationary gap. Draw and explain how fiscal policy is used to close the gaps. (____/2)

4. Finish the following pages for the problem set: AS/AD Practice Graphs (____/20)

AD/AS PRACTICE

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

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: