

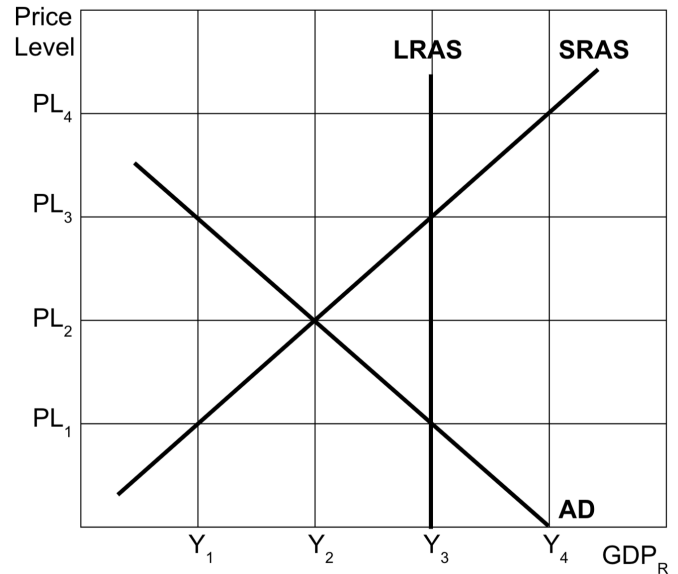
# MACROECONOMICS UNIT 3

## PRACTICE SHEET



### Part 1: Aggregate Demand and Supply- Use the graph to the right to complete the following.

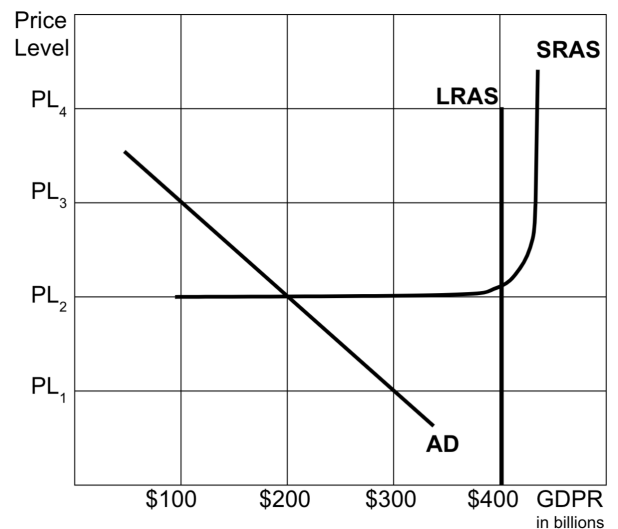
1. What is the short-run equilibrium price level and output?  
**PL = PL<sub>2</sub> and Q = Y<sub>2</sub> , Where AD = SRAS**
2. Identify the short-run equilibrium price level and output if consumer spending fell? **PL = PL<sub>1</sub> and Q = Y<sub>1</sub> , AD would shift left**
3. Identify the short-run equilibrium price level and output if investment increased? **PL = PL<sub>3</sub> and Q = Y<sub>3</sub> , AD would shift right (PL<sub>4</sub> and Y<sub>4</sub> is also acceptable)**
4. Identify the short-run equilibrium price level and output after a negative supply shock? **PL = PL<sub>3</sub> and Q = Y<sub>1</sub> , AS would shift left**
5. If the real GDP was Y<sub>3</sub>, what types of unemployment would exist? **Frictional and structural unemployment**
6. If the real GDP was Y<sub>2</sub>, what types of unemployment would exist? **Cyclical, frictional and structural unemployment**



7. Identify the long-run equilibrium price level and output if wages and resource prices are flexible. **PL = PL<sub>1</sub> and Q = Y<sub>3</sub> , SRAS would shift right as wages and production costs fall.**
8. Assume wages and resource prices are flexible and that the economy reaches long-run equilibrium. What would be the long-run equilibrium output if there was an increase in consumer spending? **Y<sub>3</sub> , AD would increase in the short-run and SRAS would shift left in the long-run. Output stays at Y<sub>3</sub> in the long-run**

### Part 2: More Practice- Use the graph to complete the following.

9. If an increase in consumer spending of \$10 billion would increase real GDP to \$300 billion, what is the marginal propensity to consume? **MPC = .9, An increase from \$200 to \$300 would be an increase of \$100 so the multiplier is 10.**
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? **\$40 billion. Multiplier is 5 and the gap is \$200**
11. Assume the MPC was .8. What is the least amount the government could cut taxes to get the real GDP from \$200 to \$400 billion? **\$50 billion. Tax multiplier is 4 and the gap is \$200**



### Part 3: 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.

|     | Change in Consumption    | MPC  | MPS  | Multiplier | Total Change in Spending |
|-----|--------------------------|------|------|------------|--------------------------|
| 12. | \$100 billion increase   | 0.8  | 0.2  | 5          | \$500 billion increase   |
| 13. | \$100 billion decrease   | 0.9  | 0.1  | 10         | \$1,000 billion decrease |
| 14. | \$300 billion increase   | 0.75 | 0.25 | 4          | \$1,200 billion increase |
| 15. | \$1,500 billion decrease | 0.5  | 0.5  | 2          | \$3,000 billion decrease |