

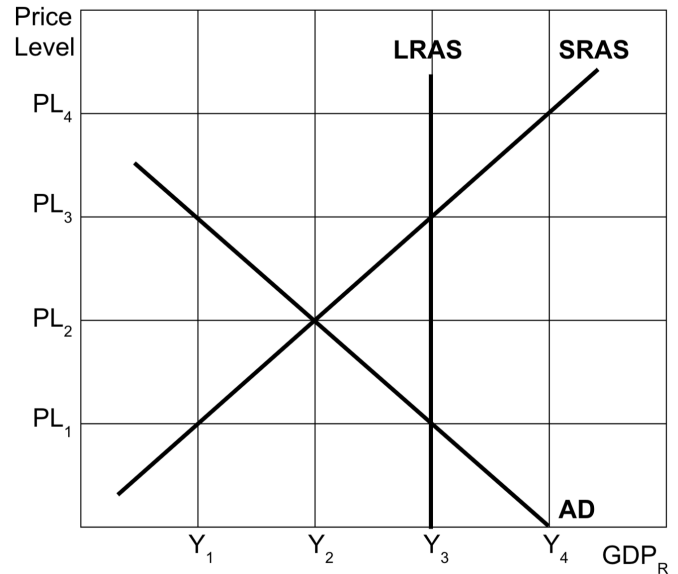
MACROECONOMICS UNIT 3

PRACTICE SHEET



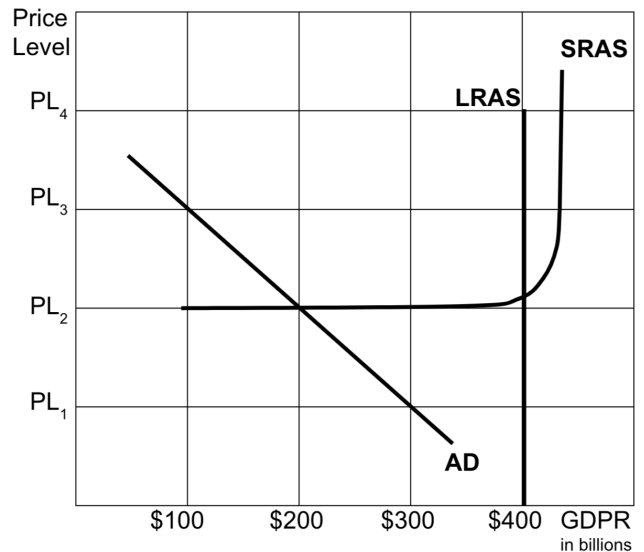
Part 1: Aggregate Demand and Supply- Use the graph to the right to complete the following.

1. What is the short-run equilibrium price level and output?
2. Identify the short-run equilibrium price level and output if consumer spending fell?
3. Identify the short-run equilibrium price level and output if investment increased?
4. Identify the short-run equilibrium price level and output after a negative supply shock?
5. If the real GDP was Y_3 , what types of unemployment would exist?
6. If the real GDP was Y_2 , what types of unemployment would exist?
7. Identify the long-run equilibrium price level and output if wages and resource prices are flexible.
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?



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?
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?
11. Assume the MPC was .8 instead. What is the least amount the government could cut taxes to get the real GDP from \$200 to \$400 billion?



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			
13.	\$100 billion decrease		0.1		
14.	\$300 billion increase				\$1,200 billion increase
15.				2	\$3,000 billion decrease