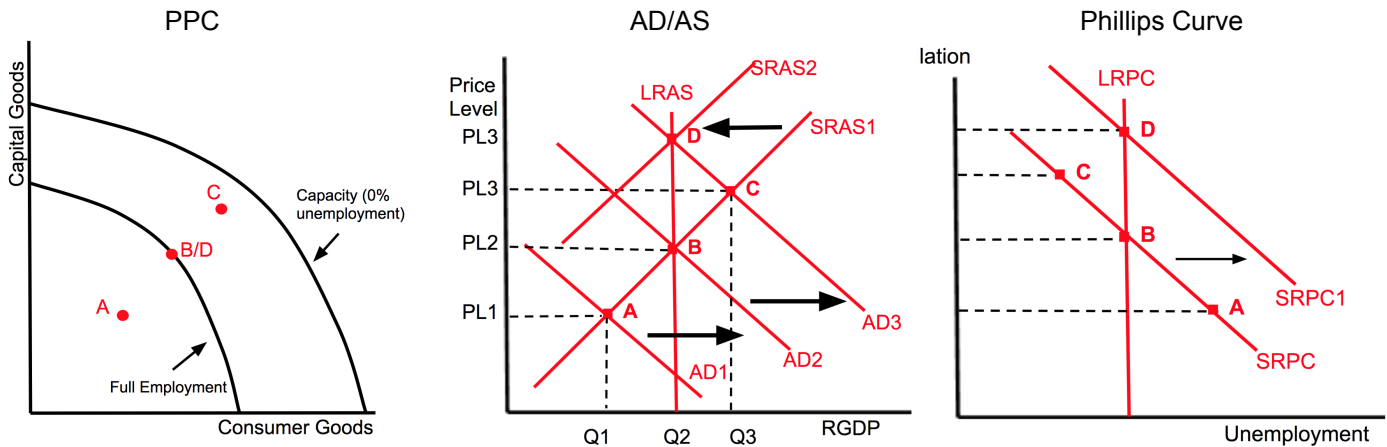


MACROECONOMICS UNIT 5

PRACTICE SHEET



Part 1- Graphing- Draw an economy with a negative output gap using the PPC, AS/AD graph, and Phillips curve. Label the initial equilibrium “A”.



1. Show what happens on all three graphs when there is an increase in consumer spending leading to full employment. Label the new equilibrium point “B”.
2. Show what happens on all three graphs when more consumer spending results in a positive output gap. Label the new equilibrium point “C”.
3. Show what happens on all three graphs in the long-run. Label the new equilibrium point “D”.

Part 2- Make Connections- Fill in the blanks using ↑ (increase), ↓ (decrease), or NC (no change).

4. ↑ Education spending → ↑ human capital → ↑ long-run aggregate supply → ↑ growth rate.
5. ↑ Federal budget deficit → ↑ interest rates → ↓ investment → ↓ capital → ↓ growth rate
6. ↓ Public infrastructure → ↓ productivity → ↓ growth rate → ↓ long-run aggregate supply.
7. ↓ Saving → ↑ real interest rates → ↓ investment → ↓ capital stock → ↓ growth rate.
8. ↑ Consumer spending → ↑ aggregate demand → NC long-run aggregate supply

Part 3- Economic Growth- Use an AD/AS graph to show an economy at full-employment.

9. Show what happens on the graph in the long-run when there is an increase in investment. **LRAS will increase**
10. How would you show this increase in investment on the production possibilities curve (PPC)? **The PPC would shift outward to the right showing economic growth.**
11. How would the AD/AS graph be different if there was an increase in consumer spending instead of an increase in investment? Explain. **The LRAS would not shift since consumer spending does not result in more capital or economic growth.**

