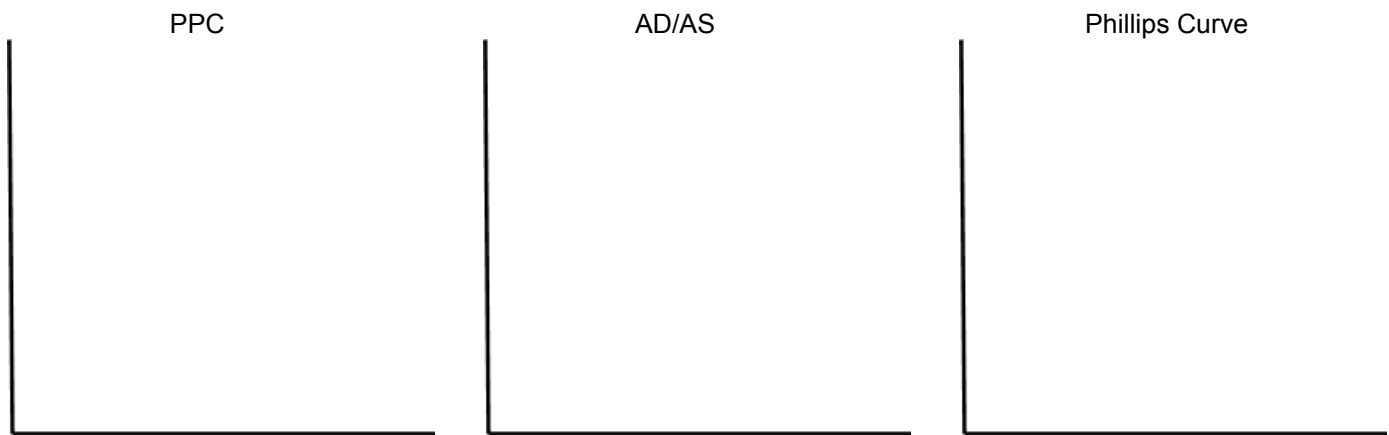


MACROECONOMICS UNIT 5

PRACTICE SHEET



Part 1: Graphing Practice- 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. ↓ Saving → ___ real interest rates → ___ investment → ___ capital stock → ___ growth rate.
6. ↑ Federal budget deficit → ___ interest rates → ___ investment → ___ capital → ___ growth rate
7. ↓ Public infrastructure → ___ productivity → ___ growth rate → ___ long-run aggregate supply.
8. ↑ Consumer spending → ___ aggregate demand → ___ 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.
10. How would you show this increase in investment on the production possibilities curve (PPC)?
11. How would the AD/AS graph be different if there was an increase in consumer spending instead of an increase in investment? Explain.

