

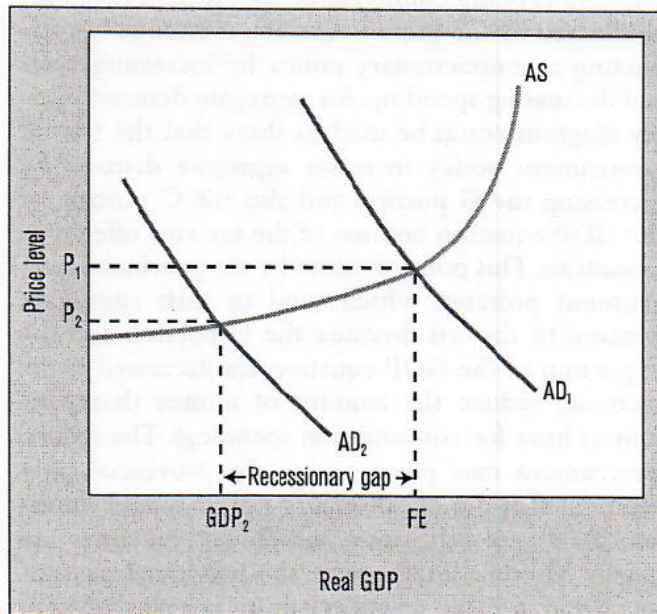
RM 4-13-2 Aggregate Supply and Demand Quiz (Answers)

Name: _____ Course: _____ Date: _____

Complete the following quiz to check your knowledge of aggregate supply and demand.

1. (equation) $GDP = C+I+G+[X-M]$

2. Sketch a fully labelled aggregate supply and demand diagram for an economy that is in full-employment equilibrium.



3. Add to the above diagram an aggregate demand curve that demonstrates an economy with a recessionary gap. Clearly label both the new curve and the recessionary gap.

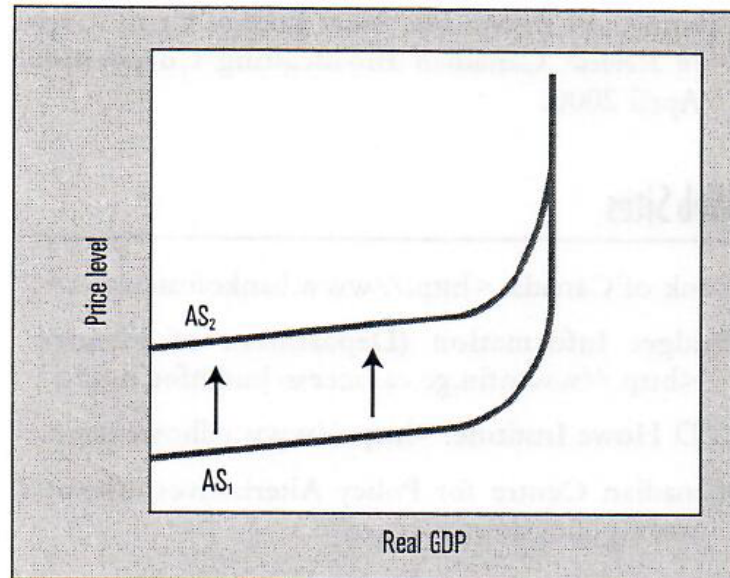
4. What is the effect of this recessionary gap on real GDP, the unemployment rate, and the inflation rate?

Real GDP decreases, the unemployment rate increases, and the inflation rate decreases

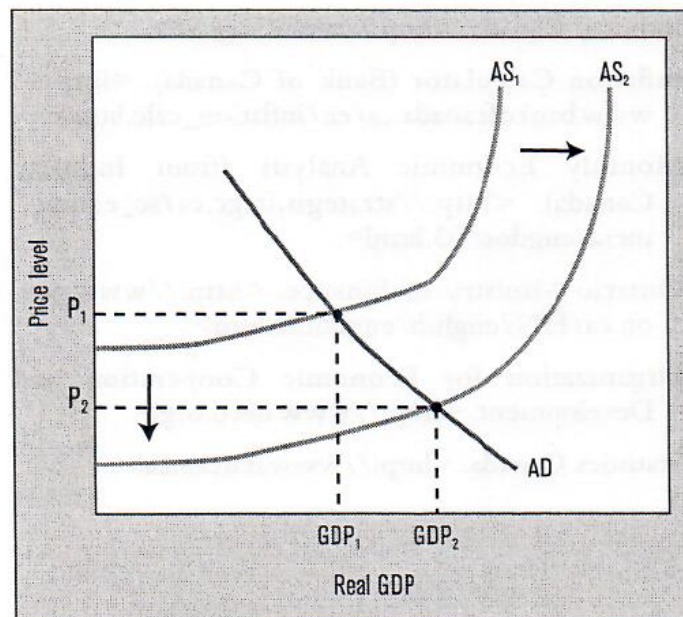
5. Explain two reasons that the aggregate demand curve might have made the above shift to the left.

The reasons are stated in Figure 13.5 (b) on page 260 of the text. Decrease in consumption, increase in taxes, increase in savings, increase in import spending, decrease in investment, decrease in government spending, decrease in exports.

6. Sketch the shift in aggregate supply that would occur due to an increase in the price of inputs. Use appropriate labels and arrows to demonstrate the direction of this shift.



7. Sketch the shift in aggregate supply that would occur due to an improvement in technology that improves productivity. Use appropriate labels and arrows to demonstrate the direction of this shift.



8. If you have not already done so, add an aggregate demand curve to the diagram in question 7. What effect did the aggregate supply curve shift have on real GDP, the unemployment rate, and the inflation rate?

Real GDP increases, unemployment decreases, and inflation rate decreases
