

## REVIEW QUESTIONS

### AD-AS MODEL

1. Explain why the aggregate demand curve slopes downward and the short-run aggregate supply curve slopes upward.
2. Identify changes in three factors that will shift the aggregate demand curve to the right and changes in three different factors that will shift the aggregate demand curve to the left.
3. What factors shift the short-run aggregate supply curve? Do any of these factors shift the long-run aggregate supply curve? Why?
4. How does the condition for short-run equilibrium differ from that for long-run equilibrium?
5. Describe the adjustment to long-run equilibrium if an economy's short-run equilibrium output is above potential output.
6. What are demand shocks? Distinguish between positive and negative demand shocks.
7. Starting from a situation of long-run equilibrium, what are the short and long-run effects of a positive demand shock?
8. What are supply shocks? Distinguish between positive and negative supply shocks and between temporary and permanent ones.
9. Starting from a situation of long-run equilibrium, what are the short- and long-run effects of a temporary negative supply shock?
10. Starting from a situation of long-run equilibrium, what are the short- and long-run effects of a permanent negative supply shock?
11. Suppose that parliament passes legislation that establishes a tax credit for small businesses and tax incentives for all businesses that invest in new plant and equipment.
  - a) What is the anticipated effect of these proposals on aggregate demand, if any?
  - b) Show your answer graphically.
12. Evaluate the accuracy of the following statement: "The recent depreciation of the TL had a positive effect on the aggregate demand curve."
13. Suppose that the government decides to sharply reduce military spending without increasing government spending in other areas.
  - a) Comment on the effect of this measure on aggregate demand.
  - b) Show your answer graphically.
14. Oil prices declined in the summer of 2008, following months of increases since the winter of 2007. Considering only this fall in oil prices, explain the effect on short-run aggregate supply and long-run aggregate supply, if any.