3. Assume the economy of Andersonland is in a long-run equilibrium with full employment. In the short run, nominal wages are fixed.

   (a) Draw a correctly labeled graph of short-run aggregate supply, long-run aggregate supply, and aggregate demand. Show each of the following.

      (i) Equilibrium output, labeled Y_1

      (ii) Equilibrium price level, labeled PL_1

   (b) Assume that there is an increase in exports from Andersonland. On your graph in part (a), show the effect of higher exports on the equilibrium in the short run, labeling the new equilibrium output and price level Y_2 and PL_2, respectively.

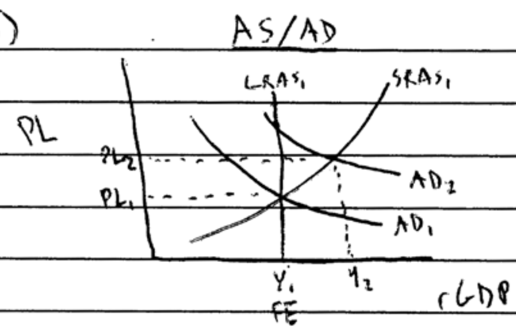
   (c) Based on your answer in part (b), what is the impact of higher exports on real wages in the short run? Explain.

   (d) As a result of the increase in exports, export-oriented industries in Andersonland increase expenditures on new container ships and equipment.

      (i) What component of aggregate demand will change?

      (ii) What is the impact on the long-run aggregate supply? Explain.

3. a.)



b.) exports ↑ Xn (exports - imports) ↑ (a component of AD)

$\boxed{AD \uparrow}$ (see graph)

c.) nWages − inflation = $\boxed{\text{rWages} \downarrow}$

stay same are fixed ; ↑ (because PL ↑)

because nWages are fixed and inflation increases, rWages ↓

d.) (i) export-oriented industries = business spending (which is) (which is) $\boxed{I \uparrow \text{ (a component of AD)}}$

(ii) I spending on new capital and equipment ↑ nation's capital stock ↑ Nation's production capacity ↑

PPF → LRAS ↑ $\boxed{\text{LRAS will shift to the right}}$