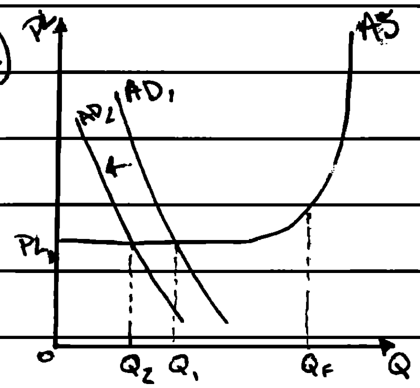
IMACLA1

Write in the box the number of the question you are answering on this page as it is designated in the examination.

1

a)

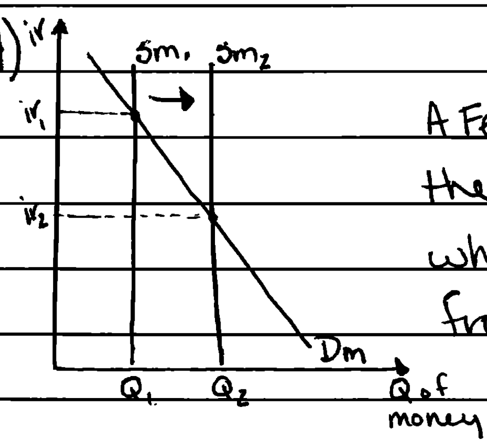


The full employment output is at QF. Because of the recession, the economy is operating at Q1 PL1.

b) The decrease in spending will shift Aggregate demand from AD1 to AD2. This lowers the level of output to Q2. However, since the economy is operating in the horizontal range, there will be no change in price level.

c) The unemployment rate will increase in the short run. There will be a decrease in AD, thereby decreasing the quantity of output. Firms will then need fewer workers to produce goods and people will loose jobs

d)



A Fed purchase of bonds will increase the money supply (from Sm1 to Sm2) which lowers the interest rate from ir1 to ir2. The lower interest rate will result in a greater

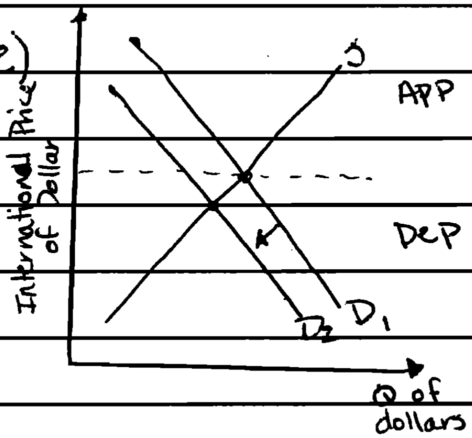
1MACLA2

1

Write in the box the number of the question you are answering on this page as it is designated in the examination.

quantity of funds invested. This shifts aggregate demand to the right, increasing output and price level (in the intermediate range).

e)



An decrease in the interest rate will ~~[illegible]~~ discourage foreign investors from investing in the US. As a result, the demand for the dollar decreases. the dollar depreciates. Exports will increase because it is now relatively less expensive for foreign countries to buy US goods. Imports will decrease because it is now relatively more expensive for the US to buy foreign goods.