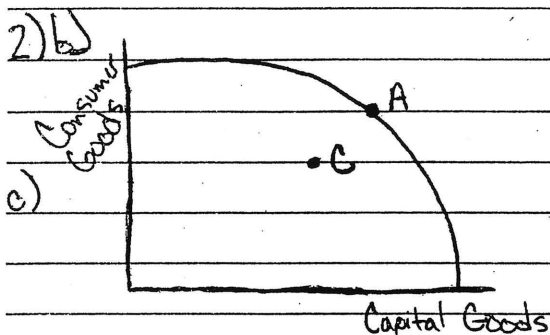


2 A

ANSWER PAGE FOR QUESTION 2

2a) ~~both~~ Production of both goods exhibits increasing opportunity costs.



2b) The Fischland government can decrease taxes and increase government spending, therefore increasing aggregate demand.

2c) Short run supply will self-correct and increase in the long run to escape the recession. This is because in the recession, there are high rates of unemployment, so wages will begin to adjust and fall, as workers must compete with the unemployed who will work for low wages. This adjusting of wages eventually shifts aggregate supply right, and back into equilibrium.

GO ON TO THE NEXT PAGE.