3A

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

(a) This would mean an increase in factor cost, which leads to a decrease in the short run aggregate supply. This will lead to a higher price level and lower real GDP.

(b) This would decrease costs, which would shift the short-run aggregate supply to the right, causing the price level to decrease and real GDP to increase.

(c) An increase in consumption, a component of aggregate demand, will cause aggregate demand to increase, which leads to an increase in both the price level and real GDP.

(d) This would mean that their exports will be relatively cheap as less of other currencies can buy 1 unit of this country's currency. Therefore, exports will increase, increasing net exports, a component of aggregate demand. Therefore, aggregate demand would increase, leading to an increase in both price level and real GDP.