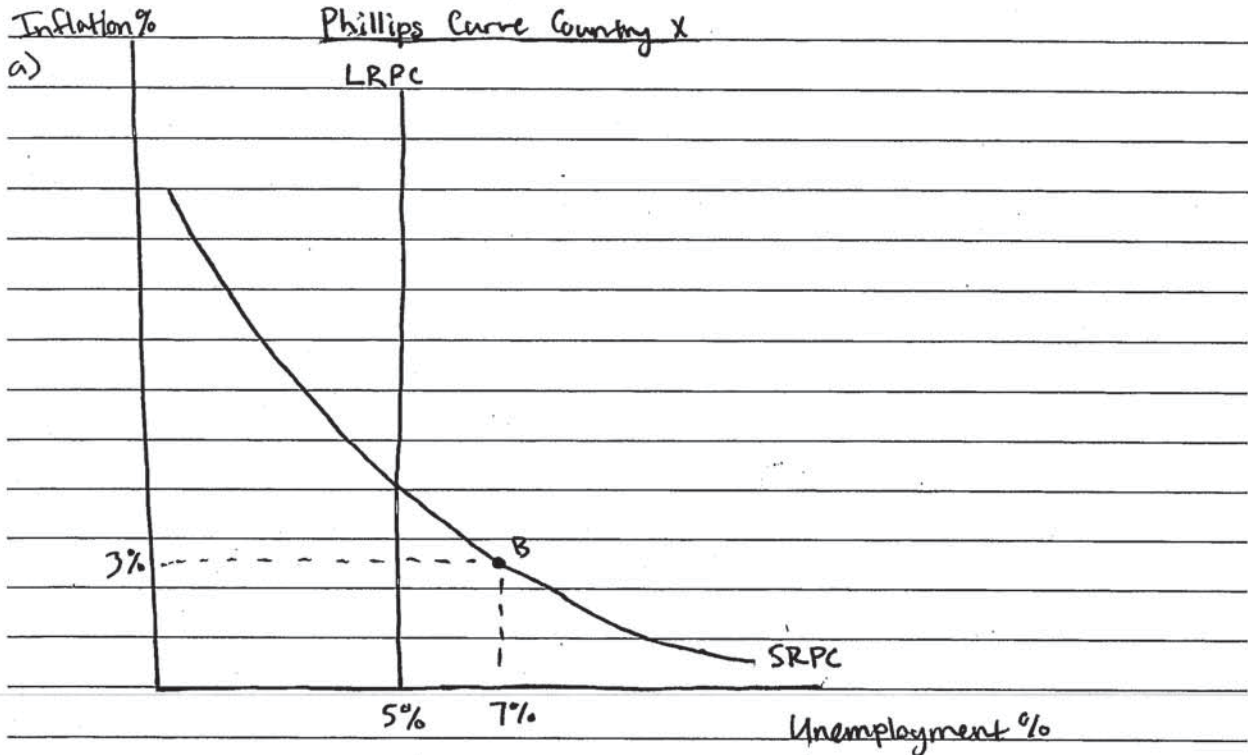


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ANSWER PAGE FOR QUESTION 1



b) i) Short-run aggregate supply will shift right because the cost of labor will fall due to the high unemployment.

ii) The Long-run Phillips curve will remain the same.

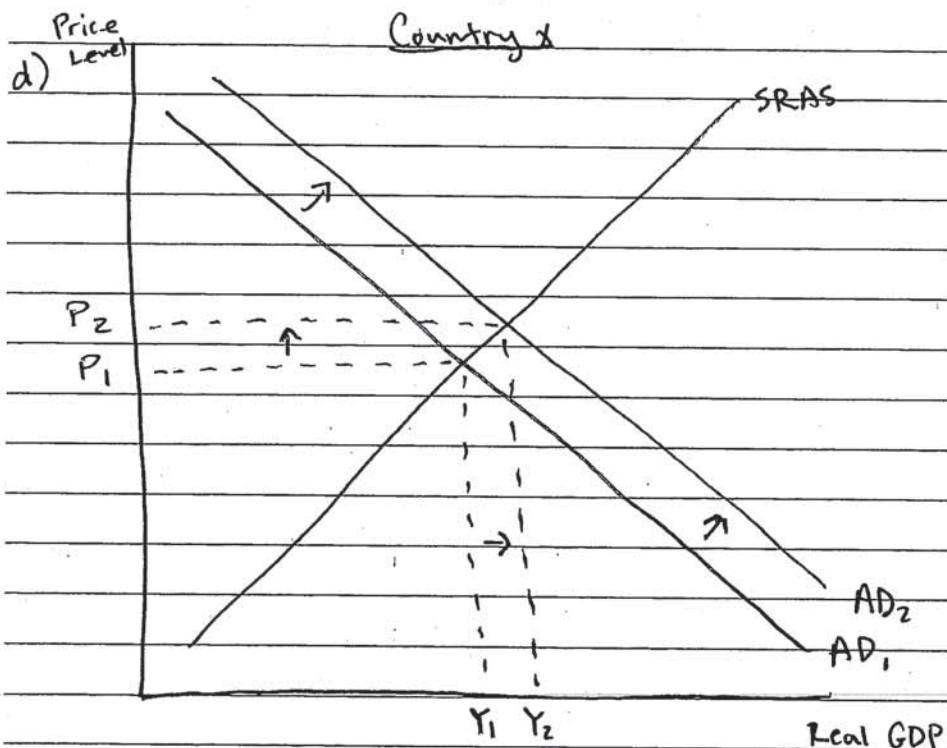
c) One fiscal policy action that can reduce the unemployment rate in the short run is increasing government spending.

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ADDITIONAL PAGE FOR ANSWERING QUESTION 1



e) The supply of Country X's currency in the foreign exchange market will increase because a higher GDP results in higher incomes that can be used to purchase foreign goods.

f) Country X's currency will depreciate because there will be higher demand for foreign goods.

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