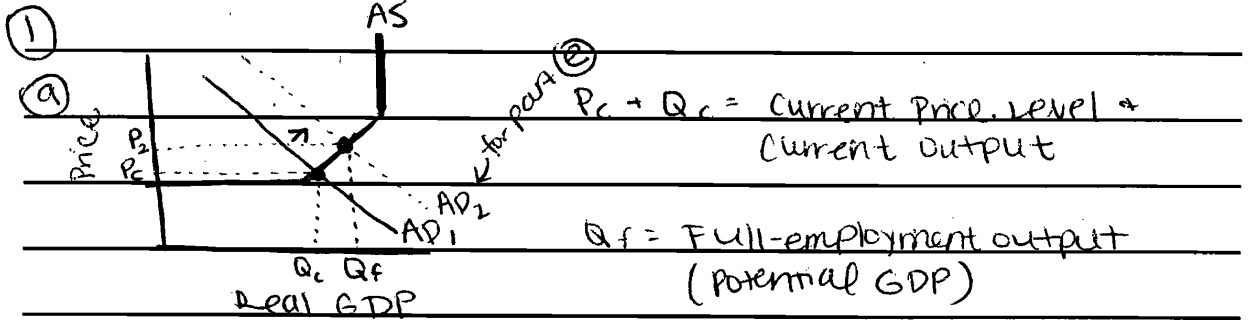
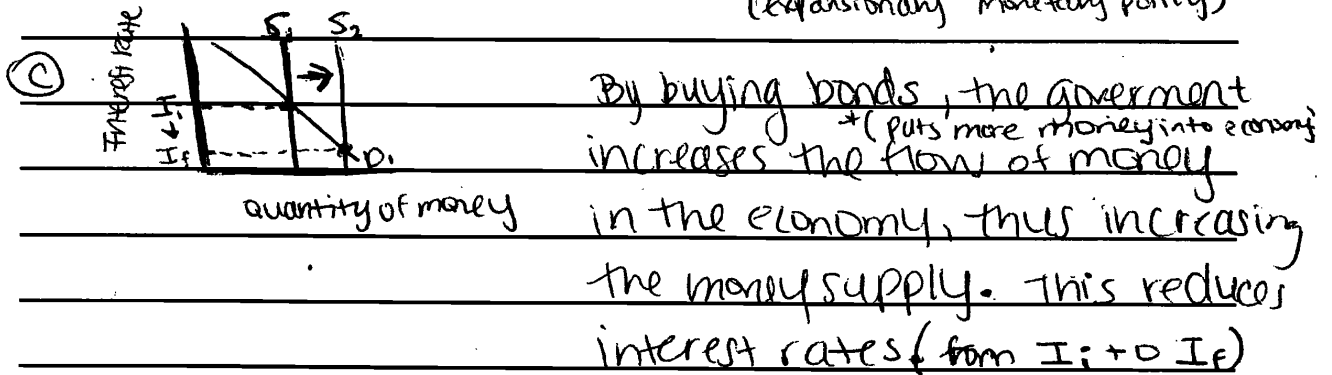


Write in the box the number of the question you are answering on this page as it is designated in the examination.

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② The federal government can buy bonds in the open-market. (expansionary monetary policy)



④ Because the interest rate has decreased, investment is more profitable, and thus aggregate demand shifts right because investment is a component of aggregate demand.

(output increases from Q_c to Q_f)

⑤ see part a: Aggregate demand shifts to the right, from AD_1 to AD_2 , and price level increases from P_c to P_2 .

⑥ Flexible prices and wages is a belief of the classical economists. They believe that the longer people are out of work, the

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more easily they will accept lower wages because they need to work. Lower wages means the production costs have decreased, thus aggregate ^{short-run} supply shifts to the right, decreasing price levels and increasing output in the short run.