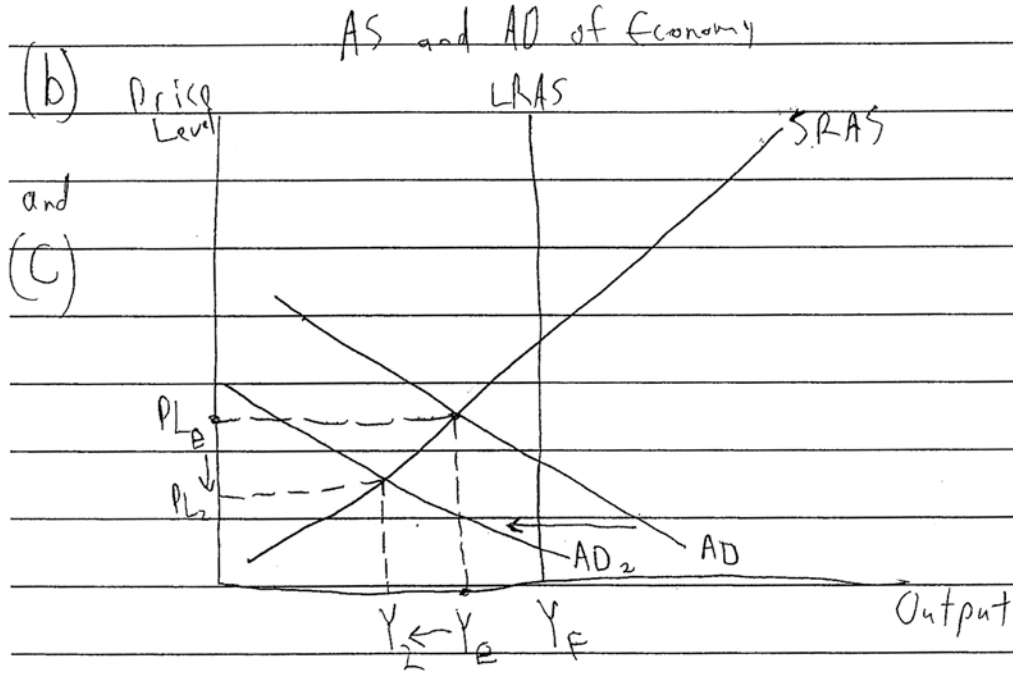
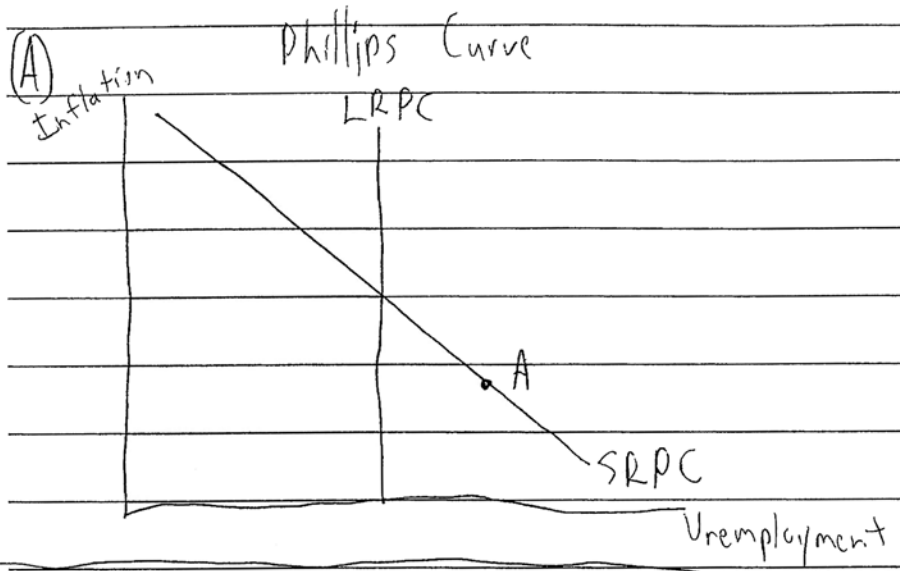


Write in the box the number of the question you are answering on this page as it is designated in the exam.

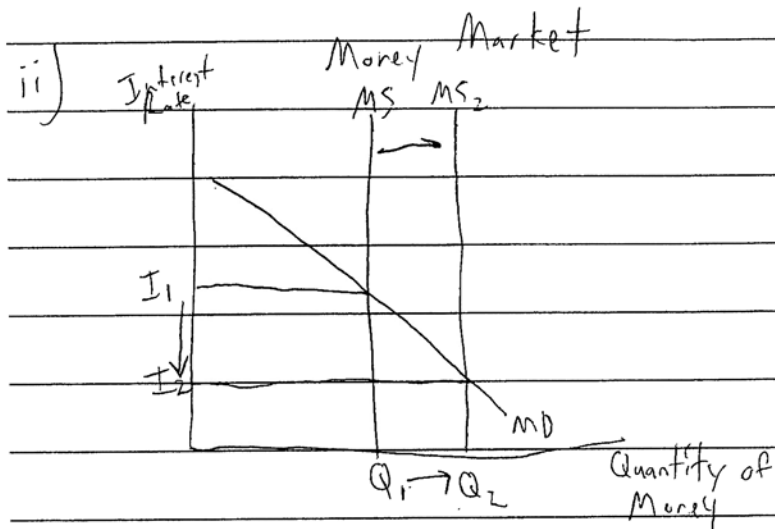
1



(b) (i). The Federal Reserve should buy bonds.

1

Write in the box the number of the question you are answering on this page as it is designated in the exam. 2 of 2



iii) Because the interest rate falling makes it easier to borrow money, more people will borrow money to spend which will raise consumption. The rise in consumption will boost Aggregate Demand, raising the price level.

e) (i) In the long run, the short run aggregate supply will increase since the recession lowers the price level. Eventually, workers will ask for a lower wage allowing employers to hire more and bringing SRAS back to equilibrium.

(ii) In the long run, the natural rate of unemployment will remain unchanged.