

Adas college essay



**ASSIGN
BUSTER**

AD/AS Homework1. Suppose the economy is in a long-run equilibrium.

a. Draw a diagram to illustrate the state of the economy. Be sure to show aggregate demand, short-run aggregate supply, and long-run aggregate supply. b.

Now suppose that a stock-market crash causes aggregate demand to fall. Use your diagram to show what happens to output and the price level in the short run. What happens to the unemployment rate. Use the sticky-wage theory of aggregate supply to explain what will happen to output and the price level in the long run (assuming there is no change in policy).

Be sure to illustrate your analysis in a graph. 2. In 1939, with the U. S. economy not yet fully recovered from the Great Depression, President Roosevelt proclaimed that Thanksgiving would fall a week earlier than usual so that the shopping period before Christmas would be longer.

Explain what President Roosevelt might have been trying to achieve, using the model of aggregate demand and aggregate supply. A period long enough for nominal wages and other input prices to change in response to a change in the nation's price level. 3. For each of the following events, explain the short-run and long-run effects on output and the price level, assuming policymakers take no action. a.

The federal government increases spending on national defense. Both long run and short run output will increase. b. A technological improvement raises productivity. Short run output will increase but over time with people losing

their jobs long run will increase with unemployment increasing as well. A recession overseas causes foreigners to buy fewer U.

S. goods. Short run out put will decrease, but long run will increase due to market correction at home