Macroeconomics 1
Problem set 7

Tick the correct alternatives (more than one may be correct) or write your answer in the space provided. Unless otherwise stated, the notation and behavioural assumptions are the same as in the lectures and textbook.

1. Which of the following changes shifts the LRAS and the SRAS? Tick if you think it does, leave blank if you do not.

   a) An exogenous increase in the short run price level shifts the LRAS_____ and the SRAS_____
   b) An increase in the price mark up shifts the LRAS_____ and the SRAS_____
   c) An increase in the minimum wage shifts the LRAS_____ and the SRAS_____
   d) An increase in the nominal wage shifts the LRAS_____ and the SRAS_____

In what follows assume that before the shock all markets are both in short run and long run equilibrium. The questions ask you to derive the new short run equilibrium after the shock. Tick the correct alternative.

2. If consumers want to save less at unchanged income

   a) The short run equilibrium level of output increases. True/false/uncertain.
   b) The short run equilibrium interest rate will fall. True/false/uncertain.
   c) The short run equilibrium level of investment increases. True/false/uncertain.
   d) The short run equilibrium price level will increase. True/false/uncertain.

3. If the central bank increases the supply of base money.

   a) The short run equilibrium level of output increases. True/false/uncertain.
   b) The short run equilibrium interest rate will fall. True/false/uncertain.
   c) The short run equilibrium level of investment increases. True/false/uncertain.
   d) The short run equilibrium price level will increase. True/false/uncertain.

4. If the government reduces government expenditure.

   a) The short run equilibrium level of output increases. True/false/uncertain.
   b) The short run equilibrium interest rate will fall. True/false/uncertain.
   c) The short run equilibrium level of investment increases. True/false/uncertain.
   d) The short run equilibrium price level will increase. True/false/uncertain.

5. If the government reduces government expenditure by the same amount as in question 4 and reduces taxes by the same amount.

   a) The short run equilibrium level of output is unchanged.

   b) The short run change in the equilibrium interest rate is smaller than/larger than/the same as in question 4.

   c) The short run change in the equilibrium price level is smaller than/larger than/the same as in question 4.