Unit 6, Lesson 38

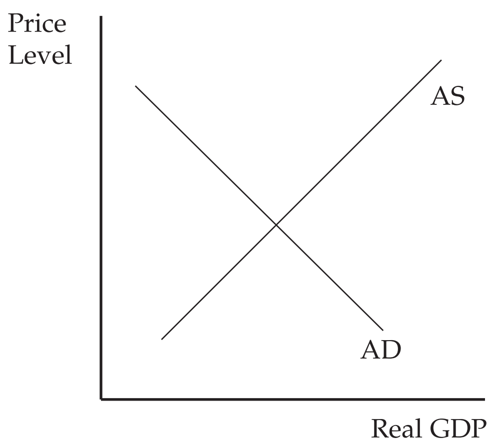
Activity 4

Economist for a Day

Aggregate demand and aggregate supply are used to analyze the causes and effects of economic problems. Changes in aggregate demand and aggregate supply also provide guidance in analyzing the effects of government monetary and fiscal policies on inflation, unemployment, and economic growth. Understanding these macroeconomic forces helps you anticipate and respond intelligently to economic events. This allows you to predict the economic consequences of proposed government policies and to make informed choices among alternative political candidates and public-policy proposals.

Let's put on our economist hats and begin our analysis of the economy. For each situation described, illustrate the change on the AD/AS diagram and describe the effects on the equilibrium price level and real GDP by circling the correct arrow: (↑) for increase, (↓) for decrease and (–) for unchanged.

1. Increase in Government Spending

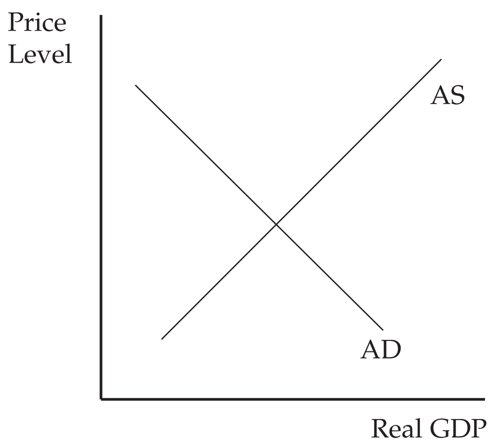


During a recession, the government increases spending on schools, highways, and other public works.

Price level ↑ ↓ –

Real GDP ↑ ↓ –

2. New Oil Discoveries



New oil discoveries cause large decreases in energy prices.

Price level ↑ ↓ –

Real GDP ↑ ↓ –

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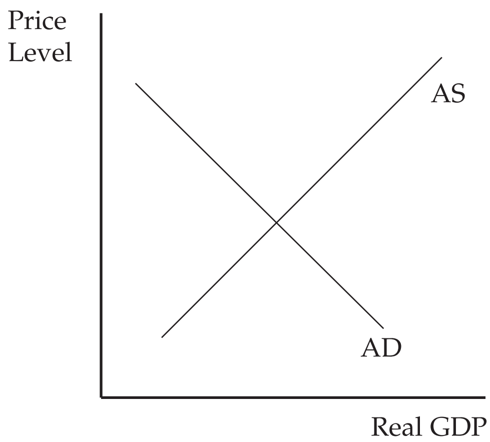
3. Effects of New Technology and Better Education

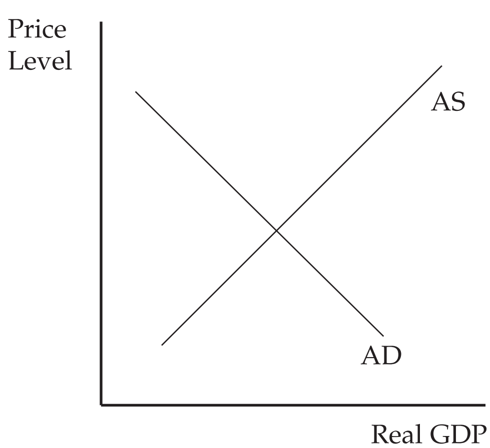


New technology and better education increase productivity.

Price level ↑ ↓ –

Real GDP ↑ ↓ –

4. Increased Confidence for Future Economy

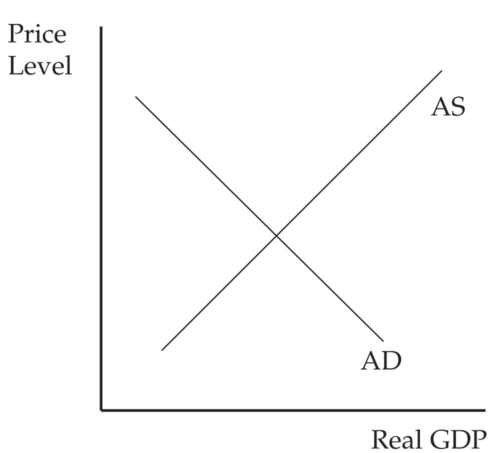


A new President makes consumers and businesses more confident about the future economy. *Note: Show the change in AD only.*

Price level ↑ ↓ –

Real GDP ↑ ↓ –

5. Income Tax Cut



Congress passes a tax cut, and the President signs it.

Price level ↑ ↓ –

Real GDP ↑ ↓ –