

ECO 120: Macroeconomics
In-class Exercise
Aggregate Supply / Demand

Name: _____

Section (Circle One): 7:45-9:10AM 9:25-10:50AM

Directions: Work in groups of up to four people and answer the following questions. All papers will be collected, but only one member's paper will be randomly selected and graded and all members of the group will receive the same grade. You must agree to these terms for a non-zero grade on the assignment.

By signing below, you agree that the following work represents the efforts of everyone in the group, and you are willing to accept as your own grade for the group project the grade earned from this representation of your group's work.

_____ Signature Group Member 1	_____ Print Name	_____ Date
_____ Signature Group Member 2	_____ Print Name	_____ Date
_____ Signature Group Member 3	_____ Print Name	_____ Date
_____ Signature Group Member 4	_____ Print Name	_____ Date

Directions: When asked to illustrate the short-run and long-run effects in the economy, draw two graphs. One that only illustrates the short-run effects, and a second that illustrates both the short-run and long-run effects.

1. Show graphically and describe the short run and long run effects of an increase in government spending. Describe and illustrate the impact on real GDP and the price level in the short run and the long run.

2. Show graphically and describe the short run and long run effects of an increase in oil prices. Describe and illustrate the impact on real GDP and the price level in the short run and the long run.

3. Suppose elected officials in Washington, DC are currently discussing changing laws governing financial markets, but no agreement has been made yet and it is uncertain whether or not the laws will be changed, and if so how. Suppose this uncertainty leads to an increase in uncertainty regarding businesses' future profitability. What impact does this have on investment? Describe and illustrate the impact on real GDP and the price level in the short run and the long run.

4. Suppose China conducts policy that causes an appreciation of the U.S. dollar relative to the Chinese Yuan. What happens to exports to China and imports from China? Describe and illustrate the impact on real GDP and the price level in the short run and the long run.

