## ECO 301: Money and Banking Your Name: \_\_\_\_\_ In-class Exercise: Aggregate Supply / Aggregate Demand

**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. Failure to complete the worksheet with a group will result in a 15 percentage point penalty.

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

- 1. Suppose real GDP is equal to potential GDP when the Fed conducts an open market purchase of bonds.
  - (a) Describe and illustrate the short-run effect on real GDP and the price level. How does real GDP in the short run compare to its initial level?

(b) Describe and illustrate the long-run effect (yes, redraw your previous answer to start answering this equation) on real GDP and the price level. If there is a change in price level, what impact does this have on *real* money supply in the long-run? What does this imply about the limitations of monetary policy?

- 2. Suppose there is an improvement in financial technology.
  - (a) Describe and illustrate the short-run effect on real GDP and the price level. How does real GDP in the short run compare to its initial level?

(b) Describe and illustrate the long-run effect (again, redraw your previous answer to start answering this equation) on real GDP and the price level. If there is a change in price level, what impact does this have on *real* money supply in the long-run?

(c) Describe and illustrate a monetary policy that can achieve price stability and bring GDP back to potential GDP.

- 3. Suppose increased violence in the Middle East causes decreases in exports of oil throughout the region.
  - (a) Describe and illustrate the impact short-run and long-run effects on real GDP and price level.

(b) Describe and illustrate a monetary policy that can achieve price stability and bring GDP back to potential GDP.