Homework #13

problems #2 from Ch. 24, p. 565 from Case/Fair *Principles…* (6th ed.)
and one of my own

2. Consider the following statement:

> "The aggregate demand curve slopes downward because when the price level is lower, people can afford to buy more, and aggregate demand rises. When prices rise, people can afford to buy less, and aggregate demand falls."

Is this a good explanation of the shape of the aggregate demand curve? Why or why not?

Do this too! Describe the effects of the following events on the price level and on equilibrium GDP in the ***long run*****,** assuming that input prices fully adjust to output prices after some lag. Use aggregate demand curves and aggregate supply curves to illustrate your answers.

a. An increase in the money supply lifts aggregate output above the long-run aggregate supply level.

b. Initially, aggregate output is above the long-run aggregate supply level, but then the government reduces its spending and the Fed contracts the money supply.

c. Initially, the economy is producing at the long-run aggregate supply level, but then a war in the Middle East temporarily increases oil prices. The Fed accommodates the cost-push inflation by increasing the money supply.