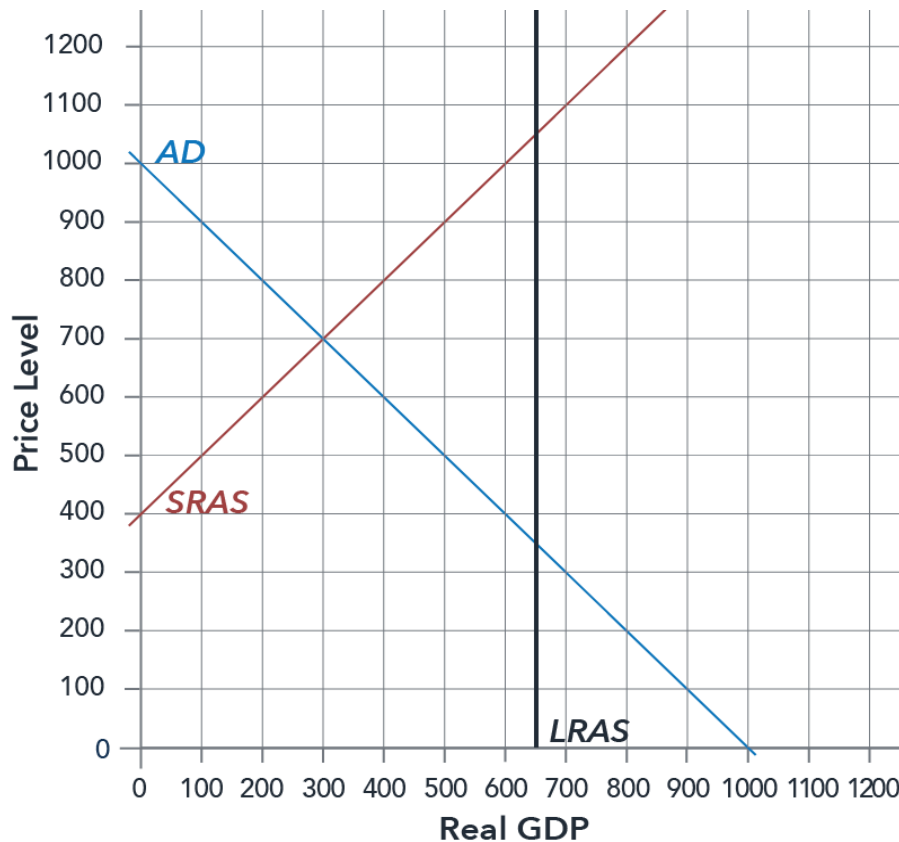


Keynesian and Neoclassical Economics Problem Set¹

1. The graph below shows the AD-AS diagram for Canada.

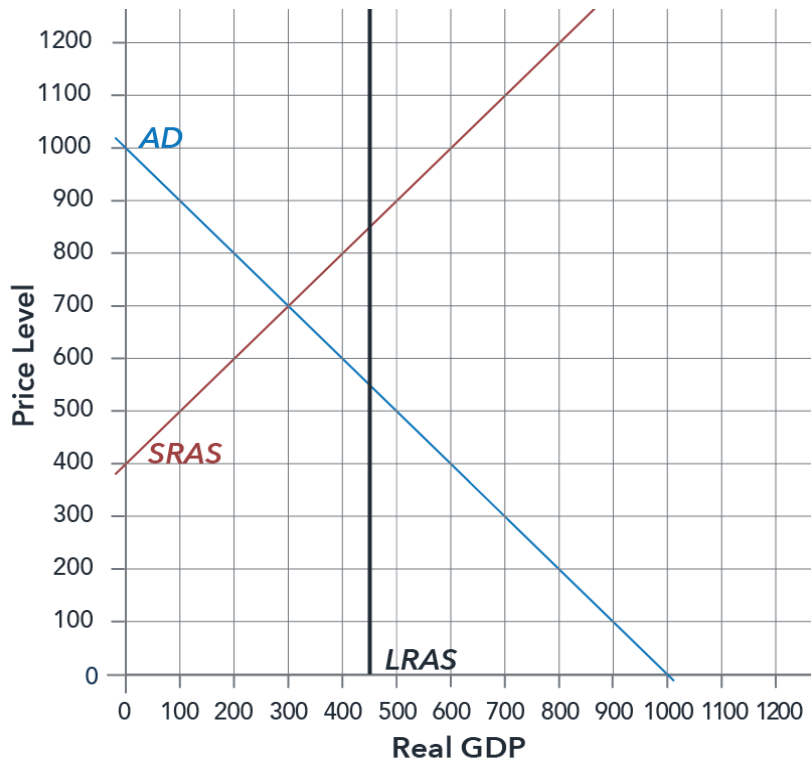


What type of the GDP gap is observed in Canada (select one)?

- a. There is no recessionary or inflationary gap.
- b. The economy is facing a recessionary gap.
- c. The economy is facing an inflationary gap.

¹ This assignment by Lumen Learning is licensed under a Creative Commons Attribution 4.0 International License. You can access an alternative means to plotting points at <https://www.desmos.com/calculator>.

2. The graph below shows the AD-AS diagram for Canada.

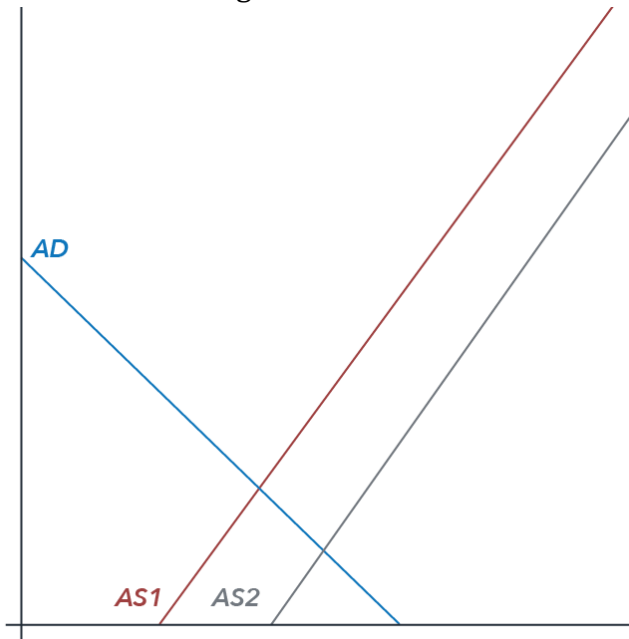


What type of fiscal policy should the government of Canada be implementing to bring the economy to the long-run equilibrium (select one)?

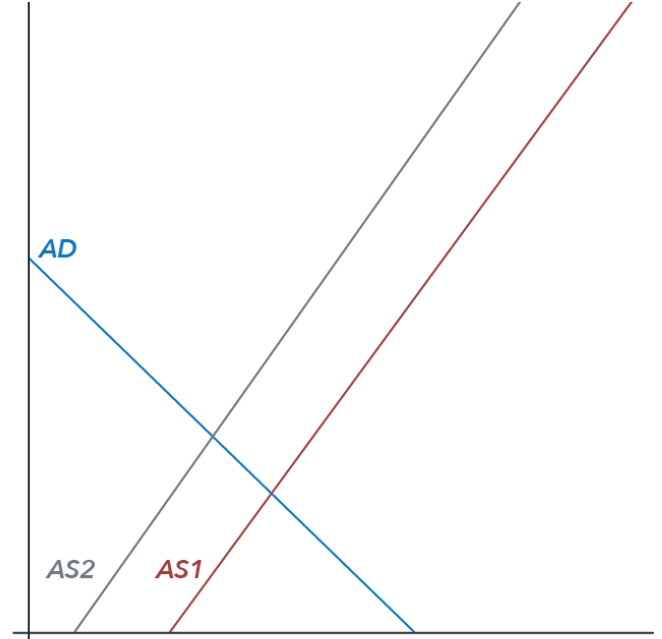
- a. There is no need for either contractionary or expansionary fiscal policy.
- b. The government should implement expansionary fiscal policy.
- c. The government should implement contractionary fiscal policy.

3. Suppose that we observe a fall in expected rate of return. Which graph most accurately shows how this would affect the aggregate demand - aggregate supply model? Note that the new curve is shown in gray.

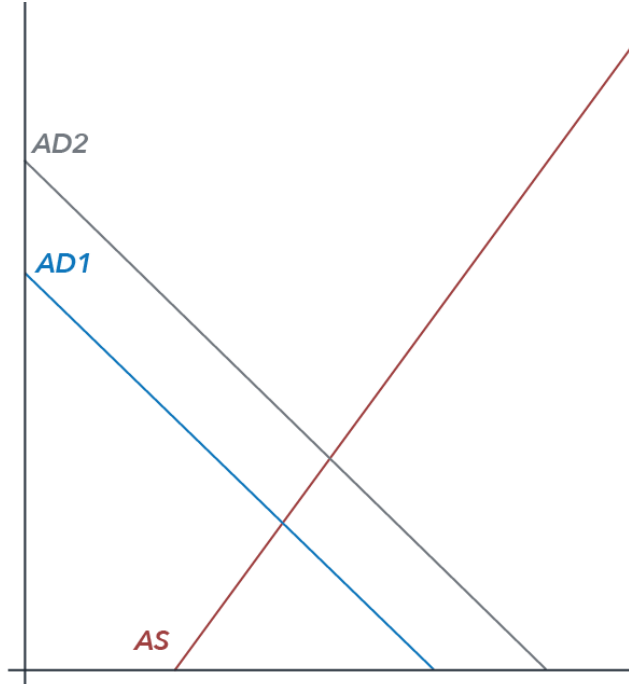
a. AS curve shifts right:



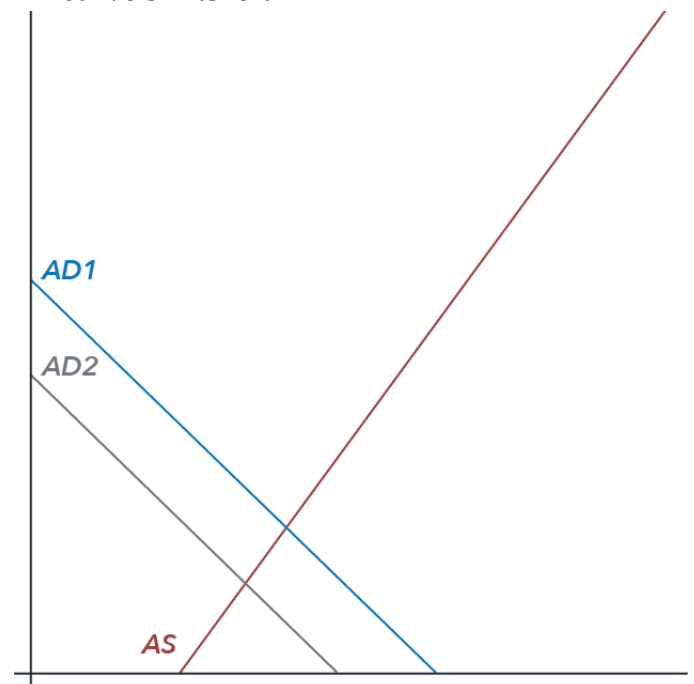
c. AS curve shifts left:



b. AD curve shifts right:

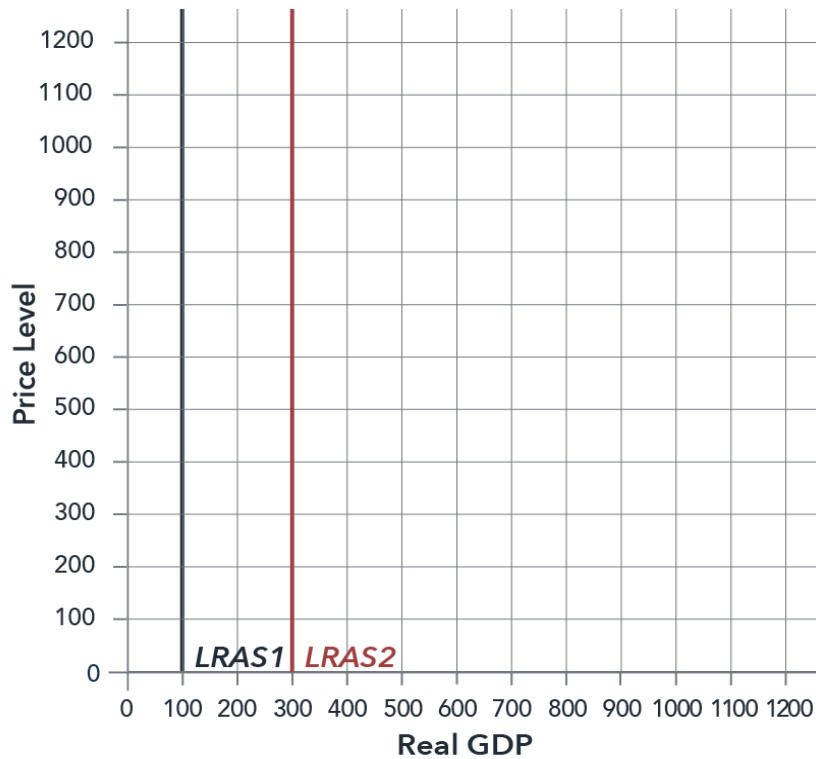


d. AD curve shifts left:



Use the following information to answer questions 4 through 6:

The graph below shows the Long-Run Aggregate Supply Curves (LRAS) for Brazil.



4. What event could shift LRAS from LRAS1 (black color) to LRAS2 (red color) in Brazil (select one)?

- a. Increase in capital.
- b. Decrease in labor.
- c. Decrease in human capital.

5. What event could shift LRAS from LRAS1 (black color) to LRAS2 (red color) in Brazil (select one)?

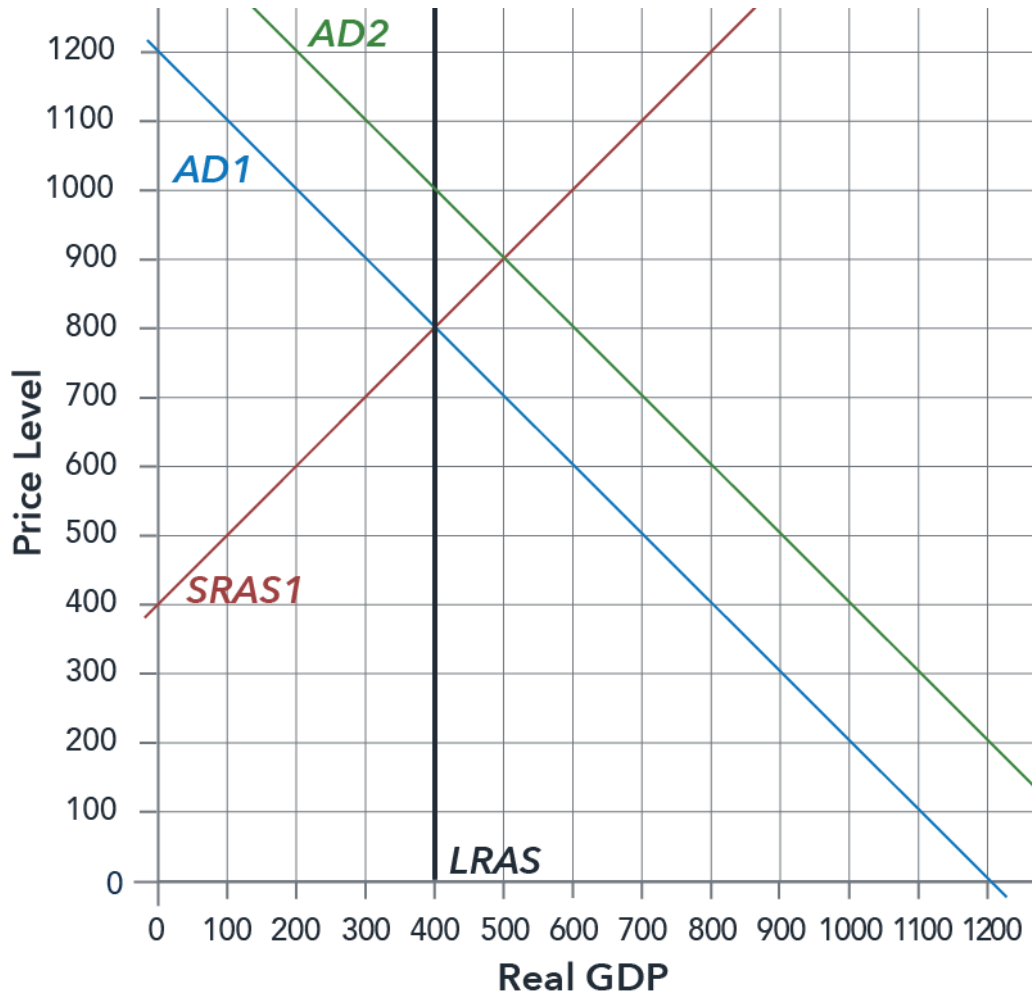
- a. Increase in fertility rate.
- b. Decrease in labor.
- c. War.

6. What event could shift LRAS from LRAS1 (black color) to LRAS2 (red color) in Brazil (select one)?

- a. Discovery of new mineral deposits.
- b. Decrease in labor.
- c. Decrease in human capital.

Use the following information to answer questions 7 through 11:

The graph below shows the AD-AS diagram for Brazil. Suppose that the economy is initially in long-run equilibrium with the price level of 800. Now suppose that the Aggregate Demand (AD) curve shifts right from AD1 (blue) to AD2 (green).



7. What is the new GDP in the short-run as a result of this shift?
8. What is the new price level in the short-run as a result of this shift?
9. What is the price level in the new long-run equilibrium as a result of this shift?
10. What is GDP in the new long-run equilibrium as a result of this shift?

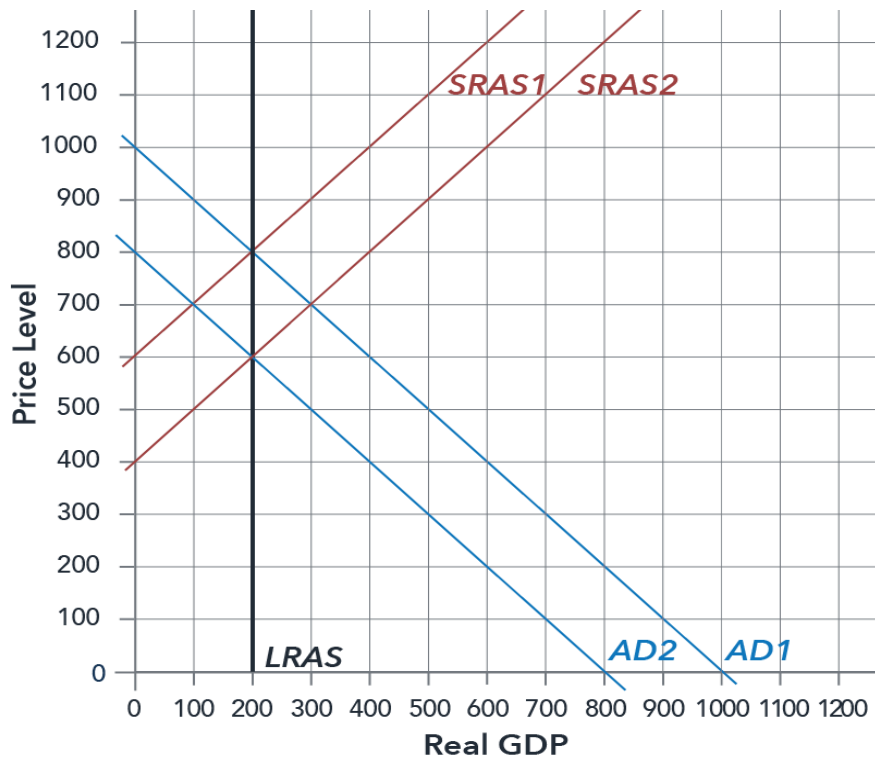
11. What causes the economy to move from the short-run equilibrium to the new long-run equilibrium (select one)?

- a. Decreased wages.
- b. Increased prices.
- c. Decreased prices.
- d. Increased wages.

Use the following information to answer questions 12 through 15:

The graph below shows the AD-AS diagram for Brazil.

Suppose that the economy is initially in long-run equilibrium with the price level of 800 (AD1 and SRAS1). Now suppose that the federal government decreases spending.



12. As a result of this event, what is the new short-run price level?

13. As a result of this event, what is the new short-run GDP?

14. As a result of this event, what is the new long-run price level?

15. As a result of this event, what is the new long-run GDP?