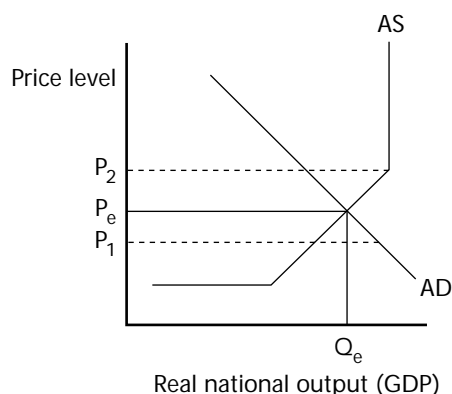


ACTIVITY 18

The Equilibrium Price Level and Equilibrium Output

Part A. Equilibrium

Equilibrium Price Levels and Output



1. What are the equilibrium price level and output? _____
2. a. What would eventually happen to the price level and output if the initial price level were P_2 rather than P_e ?

b. Why would this happen?
3. a. What would eventually happen to the price level and output if the initial price level were P_1 rather than P_e ?

b. Why would this happen?

ACTIVITY 18 continued

Part B. Changes in the Equilibrium Price Level and Output

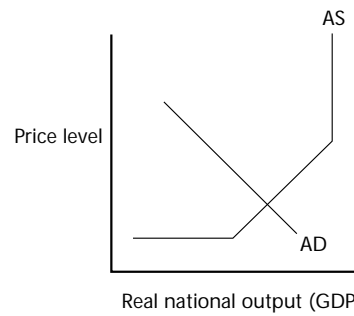
For each situation described, illustrate the change on the AD/AS graph and describe the effect on the equilibrium price level and real national output by circling the correct arrow (↑ for increase, ↓ for decrease, — for unchanged).

1. Congress passes a tax cut for the middle class, and the President signs it.

Price level ↑ ↓ —

Real national output (GDP) ↑ ↓ —

Change A—Middle Class Tax Cut

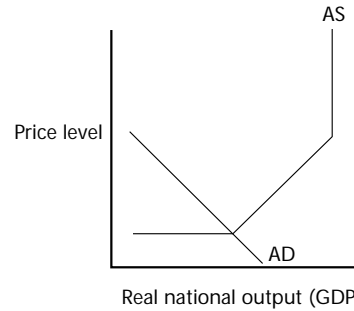


2. During a recession, the government increases spending on schools, highways, and other public works.

Price level ↑ ↓ —

Real national output (GDP) ↑ ↓ —

Change B—Increased Government Spending

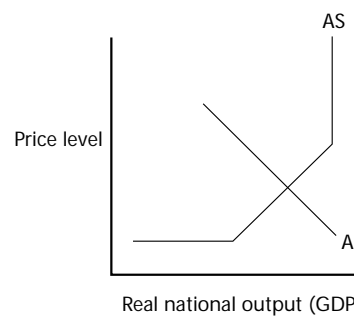


3. New oil discoveries cause large decreases in energy prices.

Price level ↑ ↓ —

Real national output (GDP) ↑ ↓ —

Change C—New Oil Discoveries

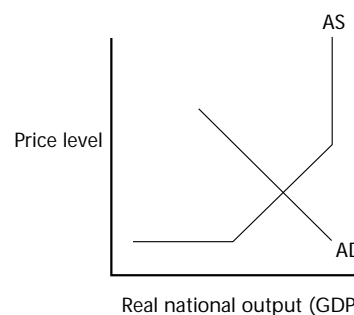


4. Illustrate the effects of demand-pull inflation.

Price level ↑ ↓ —

Real national output (GDP) ↑ ↓ —

Change D—Effects of Demand-Pull Inflation



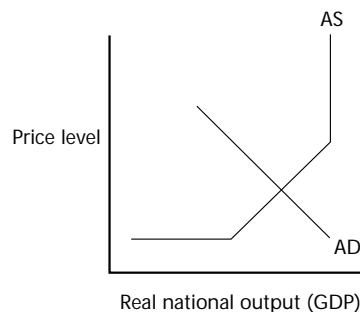
ACTIVITY 18 continued

5. Illustrate the effects of cost-push inflation.

Price level ↑ ↓ —

Real national output (GDP) ↑ ↓ —

Change E—Effects of Cost-Push Inflation

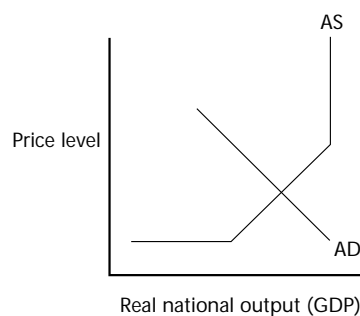


6. New technology and better education increase productivity.

Price level ↑ ↓ —

Real national output (GDP) ↑ ↓ —

Change F—Effects of New Technology and Better Education

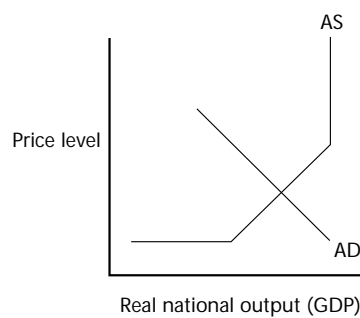


7. A new President makes consumers and businesses more confident about the future economy. *Note: Show the change in AD only.*

Price level ↑ ↓ —

Real national output (GDP) ↑ ↓ —

Change G—Increased Confidence for Future Economy

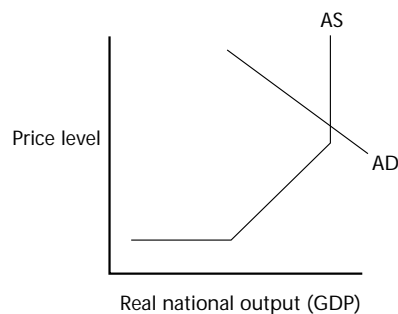


8. With the unemployment rate at five percent, the federal government reduces personal taxes and increases government spending. *Note: Show the change in AD only.*

Price level ↑ ↓ —

Real national output (GDP) ↑ ↓ —

Change H—Reduced Taxes and Increased Government Spending

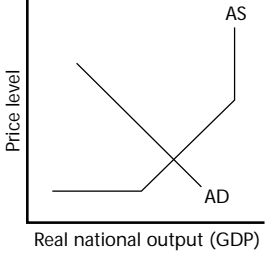
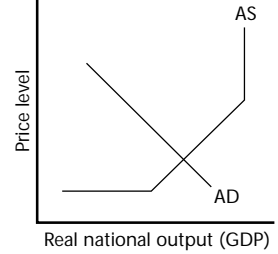
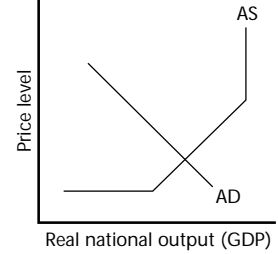
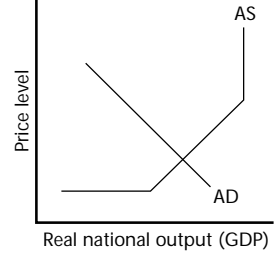


ACTIVITY 18 continued

Part C. Summarizing Aggregate Demand and Aggregate Supply Shifts

For each of the events, make additions to the diagram that illustrate the change. Then indicate the response in terms of shifts in or movements along the aggregate demand or aggregate supply curve and the effect on real national output and the price level in the short run. Indicate *shifts* in the curve by S and movements *along* the curve by A. Indicate the changes in price level, unemployment, and real national output with + for an increase and - for a decrease.

Events:

1. Increase in labor productivity due to technological change	2. Increase in the price of inputs used by many firms	3. Boom in investment assuming some unemployed resources are available	4. A major reduction in investment spending
<p>Diagram</p> 	<p>Diagram</p> 	<p>Diagram</p> 	<p>Diagram</p> 
AD Curve			
AS Curve			
Real National Output			
Price Level			
Unemployment			