

Macroeconomics II -Problem set 2

Topic 2: The Aggregate Supply and Aggregate Demand Model (AS-AD)

1. Use the AS-AD Model to analyze an increase in autonomous consumption. Specifically, analyze:
 - a) Graphically, the short and medium run consequences of this shock.
 - b) Analytically, the changes in all the three markets of the model, both in the short and medium run.
 - c) Analyze the effect of this shock over the components of the demand of goods.
2. Assume that the European Central Bank implements an expansionary monetary policy ($\uparrow M$). However, assume also that both workers and firms anticipate both this monetary shock and its short-run effects over the economy. Use the the AS-AD Model to analyze the effects of this policy in the short-run. Compare yours results with those obtained where it is assumed that this same shock is unexpected.
3. Use the AS-AD Model to analyze a decrease in social protection, z . Specifically, analyze:
 - a) Graphically, the short and medium run consequences of this shock.
 - b) Analytically, the changes in all the three markets of the model, both in the short and medium run.
 - c) Analyze the effect of this shock over the components of the demand of goods.

4. Use the AS-AD Model to analyze the available options for governments to reduce private consumption in the medium run.
5. Assume that the production function is given by $Y = AN$, where $A > 1$ measures labor productivity, and N is the number of workers. Assume also an initial situation ($t = 0$) where output is at its natural level. Then, and at the beginning of period $t = 1$, there is an increase in the value of A . Then, analyze:
 - a) Graphically, the short and medium run consequences of this shock.
 - b) Analytically, the changes in all the three markets of the model, both in the short and medium run.
 - c) Analyze the effect of this shock over the components of the demand of goods.