Assignment | Unit 8

Aggregate Supply and Aggregate Demand (AS-AD) Model

1. Your Assignment should have a cover sheet with the following information:

   - Your Name
   - Course Number
   - Section Number
   - Date

2. You may submit your Assignment using the Unit 8 Assignment template.

3. Your answers should follow APA formatting by being in double spaced paragraph format, with citations to your sources and, at the bottom of your last page, a list of references. Your answers should also be in Standard English with correct spelling, punctuation, grammar, and style.

4. Respond to the questions in a thorough manner, providing specific examples of concepts, topics, definitions, and other elements asked for in the questions. Your paper should be highly organized, logical, and focused.

5. Required Format:

   - Correct APA formatting for answers (cover sheet with name, course number, section number, unit number, date, answers double spaced, in Times New Roman 12-point font). Review the APA formats found in the Writing Center.
   - Correct citations within answers
   - Standard English with no spelling or punctuation errors
   - Correct references at the bottom of the last page

Assignment

According to the author, an open-economy macroeconomics introduces the basic concepts and vocabulary associated with macroeconomics in an international setting: net exports, net capital outflow, real and nominal exchange rates, and purchasing-power parity. The model of aggregate demand (AD) and aggregate supply (AS) is a model economists use to analyze the economy's short-run fluctuations such as recessions. View the Chapter 18: "Is it Better for a Country to Have a Trade Surplus Rather than a Trade Deficit?" and the Chapter 20: "Please Explain the Model of Aggregate Demand and Aggregate Supply" video.

1) Long-run Macroeconomic Equilibrium and Stock Market Boom
Let us assume the economy reaches its long-run macroeconomic equilibrium in 2020. When the economy is in the long-run macroeconomic equilibrium, the stock market will also reach its boom. This will in turn lead to increases in stock prices more than expected, and the stock prices will stay high for some period.

Answer the following questions based on the scenarios of long macroeconomic equilibrium and consequent stock market boom.

a) Which curve will shift? Is it AS curve or AD curve? In which direction does the shift occur?

b) In the short-run, what will happen to the price level and output (real GDP)?

c) What will happen to the expected price level? What impact does this have on wage bargaining power of workers?

d) In the long-run, which curve will shift due to the change in price expectations created by the stock market boom? In which direct will it shift?

e) How does the new long-run macroeconomic equilibrium differ from the original equilibrium?

2) Studies indicate that net exports and net capital outflows tend to be equal.

a) Why are net exports and net capital outflows tend to be equal? How does an increase in the price level change interest rates?

b) How does this change in interest rates lead to changes in investment and net exports?

3) Assume there is a decrease in the demand for goods and services, which leads to a decrease in the real GDP and eventually the economy into recession.

a) When the economy enters recession due to a decline in demand, what will happen to the price level?

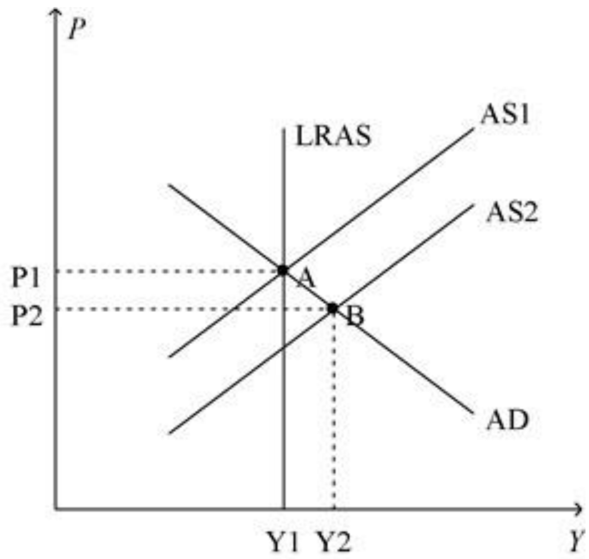
b) Assume there is no government intervention. What will ensure that the economy still eventually gets back to the natural rate of output (real GDP)?

4) A number macroeconomic variables decline during recessions. One of these variables is the GDP.

a) What other variables, besides real GDP, tend to decline during recessions? Given the definition of real GDP and its components, explain the declines in these economic variables which are to be expected.

b) Empirical studies indicate that the long-run trend in real GDP of the USA has an upward trend. How is this possible given business cycles and macroeconomic fluctuations? What factors explain the upward trend in spite of the cycles?

5) Assume there are short-run and long-run Macroeconomic Equilibriums in the economy.



Refer to the AS and AD curves above to answer the following questions.

a) What is the initial point of the long-run macroeconomic equilibrium? What are the equilibrium values? What does the appearance of the long-run aggregate-supply (LRAS) curve indicate? How does it differ from AS?

b) What are the factors that can shift short-run aggregate supply curve from AS_1 to $AS_{2?}$ What does Point A represent in the graph? What does point B represent? Is it the short-run or long-run macroeconomic equilibrium? Explain.

c) Assume aggregate demand (AD) is held constant, in the long-run, starting from point B, what will the economy likely experience? Will it reach the long equilibrium?

This Assignment deals with areas discussed under Aggregate Supply (AS) and Aggregate Demand (AD), and the basic concepts of open-economy macroeconomics (Chapters 18 and 20).

Directions for Submitting Your Assignment

Before you submit your Assignment, you should save your work on your computer in a location and with a name that you will remember. Make sure your Assignment is in the appropriate format (Microsoft Word), then, when you are ready, you may submit to the Dropbox.

Unit 8 Assignment: Aggregate Demand and Aggregate Supply		
Content and Analysis	**Points Possible**	**Points Earned**
Problem #1 Identified the curve that shifts. (“a”)	2	
Explained the effects on price and real GDP. (“b”)	2	
Explained the effects on the short-run expected price and wage bargaining. (“c”)	2	
Explained long-run impacts on price expectations.	2	
Identified new long-run equilibrium.	2	
Problem #2 Provided explanations for the relationships between net export and net capital flows.	2	
Explain the impacts of interest rates on net exports and investment.	2	
Problem #3 Identified the impacts of recessions on price.	2	
Describe how the economy returns to natural rate of output.	2	
Problem #4 Explained the variables that decline during recessions.	2	
Explained upward trend of real GDP under business cycles.	2	
Problem #5 Correctly identify long-run macroeconomic equilibrium and its values.	2	
Explained the factors that shift AS.	2	
Identified short-run equilibrium at (“b”).	2	
Explain long-run change in short-run equilibrium.	2	
Writing style, grammar, and APA formatting.	5	
Total	**35**	