

# Assignment | Unit 9

## Monetary and Fiscal Policy, Macroeconomic Fluctuations, and Macroeconomic Equilibrium

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 9 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

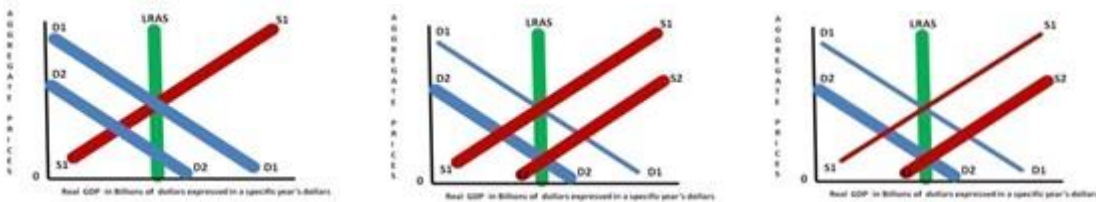
**This Assignment will assess your knowledge based on the following outcome:**

**GEL-1.2:** Demonstrate college-level communication through the composition of original materials in Standard English.

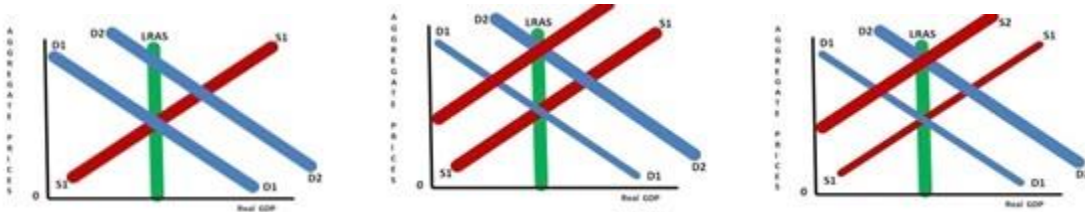
As an assistant researcher in economics, your job is to analyze the impacts of the change in fiscal and monetary policy instruments that accompany the change in economic conditions. When aggregate demand or short-run aggregate supply curve shifts, it causes fluctuations in output (GDP). As a result, policymakers sometimes try to offset these AD and AS curve shifts by using monetary and fiscal policy instruments. With this in mind, address the Assignment questions on the impacts of monetary and fiscal policies on aggregate demand and short-run macroeconomic fluctuations. View the Chapter 21: [“If It’s Better to have Higher Output and Lower Unemployment, then Why Doesn’t the Government Use Monetary and Fiscal Policy to Expand Aggregate Demand as Much as Possible?”](#) video and the Chapter 22: [“Is there Any Way to Measure “Expected Inflation?”](#) video.

- Refer to the sets of the aggregate demand, short-run aggregate supply, and long-run aggregate supply curves. Use the graphs to explain the process and steps by which each of the following economic scenarios will shift the economy from one long-run macroeconomic equilibrium to another equilibrium. Under each scenario, elaborate the short-run and long-run effects of the shifts in the aggregate demand and aggregate supply curves on the aggregate price level and aggregate output (real GDP).

a. Suppose the household wealth decreases due to a decline in the stock market asset prices (see the set of graphs below and pay attention to the 3-stage shifts in graphs).

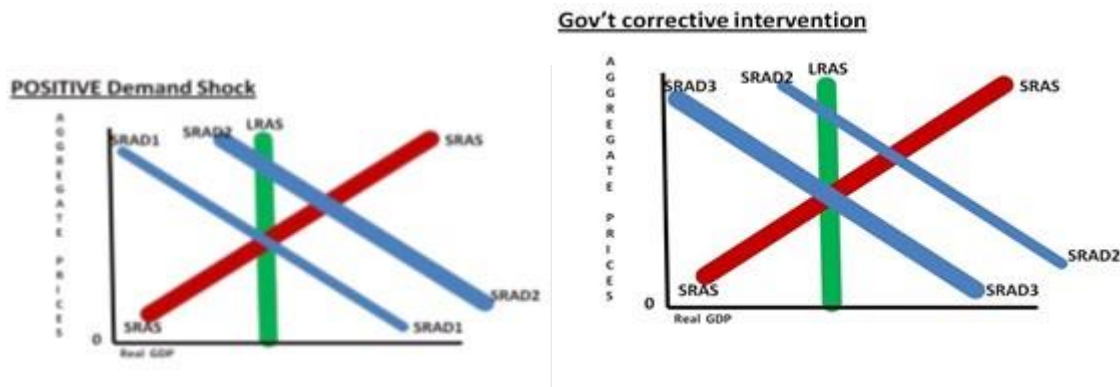


b. Assume the government lowers taxes, which increases the household's disposable income. However, the government purchases (spending) remains the same (see the set of graphs below and shifts in graphs).

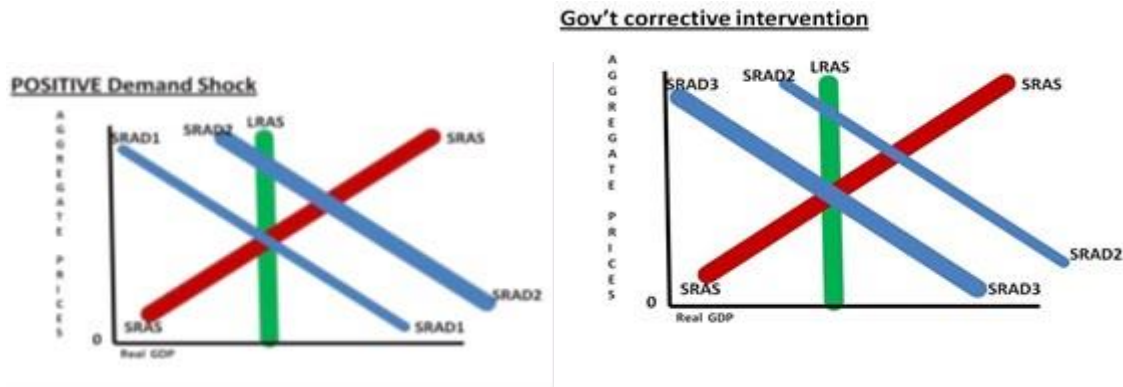


- Suppose the economy of a hypothetical country has reached its long-run macroeconomic equilibrium when each of the following aggregate demand shocks occurs. What kind of gap, inflationary or recessionary gap, will the economy face after the AD shock indicated by the shift in AD curves? What types of fiscal policy instruments will help move the economy back to the potential level of output (real GDP)? Give specific examples.

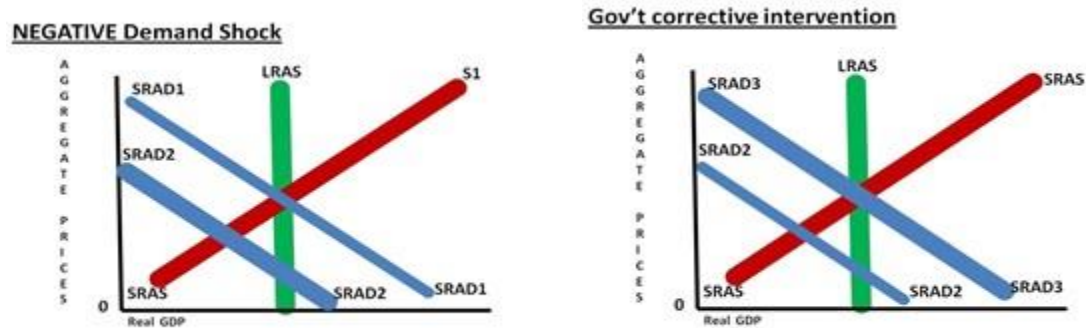
a. At the long-run macroeconomic equilibrium, the stock market boom occurs and this increases the value of stocks households hold (see the set of graphs below and shifts in graphs in the two-steps).



b. The government increases its purchases (spending) due to natural disasters (see the set of graphs below and shifts in graphs).



c. Assume the Central Bank reduces the money supply in the economy which leads to an increase in the interest rates (see the set of graphs below and shifts in graphs).



This Assignment deals with how monetary and fiscal policy instruments are utilized to deal with macroeconomic fluctuations in order to achieve long-run macroeconomic equilibrium through changing the aggregate demand (AD) and Aggregate Supply (AS) in the economy (refer to Chapters 21 and 22).

### 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 9 Assignment: Monetary and Fiscal Policy Applications		
Content and Analysis	Points Possible	Points Earned
<b>Problem 1, Part a</b> Correctly explained short-run effects on the aggregate price level and aggregate output.	2	
Correctly explained long-run effects on the aggregate price level and aggregate output.	2	
<b>Problem 1, Part b</b> Correctly explained short-run effects on the aggregate price level and aggregate output.	2	
Correctly explained long-run effects on the aggregate price level and aggregate output.	2	
<b>Problem 2, Part a</b> Correctly identified what kind of gap exists.	2	
Explained what type of monetary policies would help move the economy back to potential output.	2	
Explained what type of fiscal policies would help move the economy back to potential output.	2	
<b>Problem 2, Part b</b> Correctly identified what kind of gap exists.	2	
Explained what type of monetary policies would help move the economy back to potential output.	3	
Explained what type of fiscal policies would help move the economy back to potential output.	3	
<b>Problem 2, Part c</b> Correctly identified what kind of gap exists.	2	
Explained what type of monetary policies would help move the economy back to potential output.	3	
Explained what type of fiscal policies would help move the economy back to potential output.	3	
Writing style, grammar, and APA formatting.	5	
<b>Total</b>	<b>35</b>	