Part I: Aggregate Demand Questions - \( AD = C+I+G+Nx \)

1. Government increases expenditures on information technology
   a. \( AD = C+I+G+Nx \) - What in changing in this formula?
      Government Spending (G)
   
   b. Will AD increase or decrease?
      \( AD \) will increase
   
   c. Draw the shift below.

![Graph showing AD curve shift](image)

2. The US increases exports to other countries.
   a. \( AD = C+I+G+Nx \) - What in changing in this formula?
      Net Exports (Exports are increasing)
   
   b. Will AD increase or decrease?
      \( AD \) will increase
   
   c. Draw the shift below.

   Same as graph in 1c

3. Consumers fear a recession and cut back on spending.
   a. \( AD = C+I+G+Nx \) - What in changing in this formula?
      Consumer Spending
   
   b. Will AD increase or decrease?
      \( AD \) will decrease
c. Draw the shift below.

Part II: Aggregate Supply = Total Supply

4. Productivity increases across industries
   a. Will aggregate supply increase or decrease? Increase
   b. Draw the shift below.

5. Oil prices rise, raising production costs for producers.
   a. Will aggregate supply increase or decrease? Decrease
   b. Draw the shift below.
6. Germany experiences a boom in the immigration of skilled workers
   a. Will aggregate supply (in Germany) increase or decrease? Increase
   b. Draw the shift below.

Part III: Will AS or AD shift? Will it increase or decrease? Place a check mark under the correct boxes.

<table>
<thead>
<tr>
<th></th>
<th>AS</th>
<th>AD</th>
<th>Increase</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Increase in labor productivity due to technological change.</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>2. Increase in the price of inputs used by many firms.</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>3. Major decrease in business investment spending.</td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>4. Government reduces taxes on households.</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Imports from other countries increase.</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>6. Labor supply decreases.</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>
Part IV:

1. In the space below, draw an AS/AD model. Show an increase in Aggregate Demand.

   a. What happened to Real GDP? *Increase*
   b. What phase of the business cycle would the economy be in? *Expansion because GDP is rising*
   c. What is likely happening to unemployment? *Decreasing because GDP is rising*
   d. What happened to price level? *Increase*

2. In the space below, draw an AS/AD model. Show a decrease in Aggregate Demand.

   a. What happened to Real GDP? *Decreasing*
   b. What phase of the business cycle would the economy be in? *Contraction because GDP is decreasing*
   c. What is likely happening to unemployment? *Increasing because GDP is decreasing*
   d. What happened to price level? *Decreasing*
3. In the space below, draw an AS/AD model. Show an increase in Aggregate Supply.

![AS/AD Model Increase](image1)

- a. What happened to Real GDP? **Increase**
- b. What phase of the business cycle would the economy be in? **Expansion because GDP is increasing**
- c. What is likely happening to unemployment? **Decreasing because GDP is increasing**
- d. What happened to price level? **Decrease**

4. In the space below, draw an AS/AD model. Show a decrease in Aggregate Supply.

![AS/AD Model Decrease](image2)

- a. What happened to Real GDP? **Decreasing**
- b. What phase of the business cycle would the economy be in? **Contraction because GDP is decreasing**
- c. What is likely happening to unemployment? **Increasing because GDP is decreasing**
- d. What happened to price level? **Increasing**
Part V: Draw the impact on the AS/AD model for each scenario below. Determine the impact on Real GDP, price level, unemployment, and the business cycle.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Graph It!</th>
<th>Real GDP</th>
<th>Price Level</th>
<th>Unemployment</th>
<th>Business Cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Congress passes a tax cut for the middle class and the president signs it.</td>
<td>AD increases due to consumers having more money</td>
<td>Increase</td>
<td>Increase</td>
<td>Decrease</td>
<td>Expansion</td>
</tr>
<tr>
<td>2. Imports into the United States begin to decline while exports out of the United States rise.</td>
<td>AD increases due to a rise in net exports</td>
<td>Increase</td>
<td>Increase</td>
<td>Decrease</td>
<td>Expansion</td>
</tr>
<tr>
<td>3. Productions costs rise significantly in many sectors of the economy.</td>
<td>AS decreases due to higher input costs</td>
<td>Decrease</td>
<td>Increase</td>
<td>Increase</td>
<td>Contraction</td>
</tr>
<tr>
<td>4. Congress raises taxes on corporations.</td>
<td>AS decreases as corporation cannot afford to produce as much</td>
<td>Decrease</td>
<td>Increase</td>
<td>Increase</td>
<td>Contraction</td>
</tr>
<tr>
<td>5. People feel confident about the future of the economy.</td>
<td>AD increases as people feel comfortable spending more money</td>
<td>Increase</td>
<td>Increase</td>
<td>Decrease</td>
<td>Expansion</td>
</tr>
</tbody>
</table>
Part VI:

In the 1960s many newspaper reporters were accustomed to reporting a decrease in the unemployment rate when the overall price level increased. However, in the 1970s, when increases in the overall price level were accompanied by increases, not decreases, in the unemployment rate, some reporters went so far as to declare macroeconomics “bankrupt” and unable to explain this “mystery.”

Using short-run aggregate demand and aggregate supply analysis, explain the “mystery” of why the increases in the overall price level during the 1960s might have been accompanied by decreases in the unemployment rate and the increases in the overall price level during the 1970s might have been accompanied by increases in the unemployment rate.

Graph for the 1960s

Graph for the 1970s