Part II – Short answer and Computation questions

**PLEASE NOTE: When answering all questions leave the question written there and answer underneath so 🡪 leave question and answer underneath. Don’t remove question and just leave answer. Leave question and answer underneath.**

**Short answer essay questions**

1. Collective Bargaining is one of the explanations for sticky wages. Describe how it leads to

sticky wages. (You may use graphs in your answer but explain in detail, define sticky wage and explain why collective bargaining is one of the explanations for sticky wages)

2. How does a pool of unemployed workers help to explain the existence of sticky wages?

3. Traditional Classical economics suggests that an increase in Government spending will not have any impact on output. Explain the Classical economists’ thinking.

4. How might Classical economists explain the high levels of aggregate output during WWII, the Korean war, and the Vietnam war?

**Question 2**

Suppose an analysis of the mining industry reports predicts the price of iron ore will increase in another year or so.

Draw a graph of how the report will impact market for capital. Use I1 to indicate equilibrium investment before the report and I2 for the equilibrium after the report. Label all curves and axis and clearly indicate any change in values.

**Question 3** For this question, you will demonstrate the impact of a given event using AD/AS analysis. 

(a) Use the axes provided above to draw the economy in a long-run equilibrium according to the AD/AS model. Label the axes and all curves. Label the equilibrium in each graph with the letter “A”.

(b) On the graph, indicate the value of the natural level of output using, Y\*, the current value of output, Y1, and the current price level, P1.

(c) Consider the impact of an increase in the money supply by the central bank. Include on your graph the short-run equilibrium. Label this “B”. Also indicate the short-run equilibrium output, Y2, and price level, P2.

(d) Include on your graph any adjustments that would take place in the absence of any government intervention. Label the long-run equilibrium “C”. Also indicate the long-run equilibrium output, YLR, and price level, PLR.

(e) Provide an economic description of the events behind the adjustments.

(f) Suppose that instead of allowing the economy to proceed from the short-run to the long-run equilibrium, the government decides to maintain Y = Y2. Would the economy remain at point B? Explain your answer.

**Question 4**

 Answer each of the following questions based on the provided figures

1. Label all curves, axis, and equilibria.
2. What can the central bank do to bring output to the Natural level?
3. Depict the impact of your suggested policy on the graphs.
4. Discuss the economic events behind the graph. In particular, it should be clear how the Fed’s actions lead to
5. Why, according to a Keynesian economist, is intervention in this case better than allowing the economy to self adjust?

