

EE312 (1/2020 Section 046401): Quiz 2. The Core IS-LM AD-AS [100 marks 10 Min.]

PART 1. (88 marks) Multiple choices. Please choose the correct answer by **circling one** letter only. Consider the Sticky wage model where producers make their decision on the “actual price” while workers make their decision on their “expected price”. N_F , ω_F and Y_F is employment, real wage and output at full employment level, respectively.

- In the short-run, suppose government expenditure decreases, how does this situation affect the ADAS model?
 - AS shifts to the right
 - AS shifts to the left
 - AD shifts to the right
 - AD shifts to the left**
 - no correct answer given
- In the short-run, suppose there is a positive productivity shocks ($Z \uparrow$). How does this situation affect the ADAS model?
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- In the short run, at the actual price level P_1 , it is found that the actual price is lower than the expected price ($P_1 < P^e$). N_1 is equilibrium employment. Which of the following is correct?
 - $N_1 < N_F$**
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- Suppose workers’ expected price increases (P^e increases). How does this situation affect the labor market?
 - N^S shifts to the right
 - N^S shifts to the left**
 - N^d shifts to the right
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- Suppose the actual price level increases (P increases). How does this situation affect the labor market?
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- Suppose initially at the actual price level P_1 , it is found that the actual price is greater than the expected price ($P_1 > P^e$). N_1 is equilibrium employment. How does the economy adjust to long-run equilibrium?
 - P^e increases and N^S shifts to the right
 - P^e increases and N^d shifts to the left
 - P^e increases and N^S shifts to the left**
 - P^e decreases and N^d shifts to the right
 - else, specify

PART2. (12 marks) Multiple choices. Please choose the correct answer by **circling one** letter only. Suppose the actual price level (P) increases while workers’ expected price (P^e) remains the same, how does this affect the following variables?

- Nominal wage :
 - increases**
 - decreases
 - remains the same
 - else, specify.....
- Employment :
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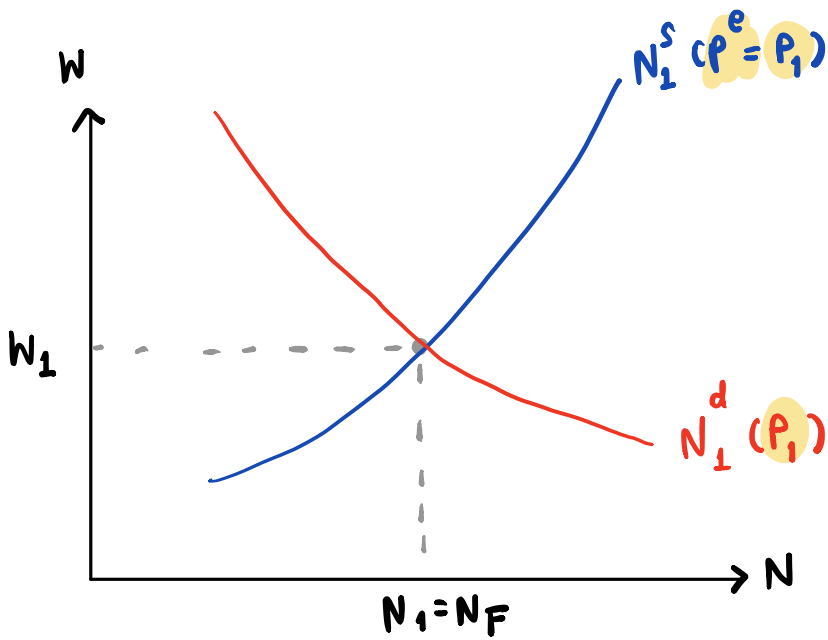
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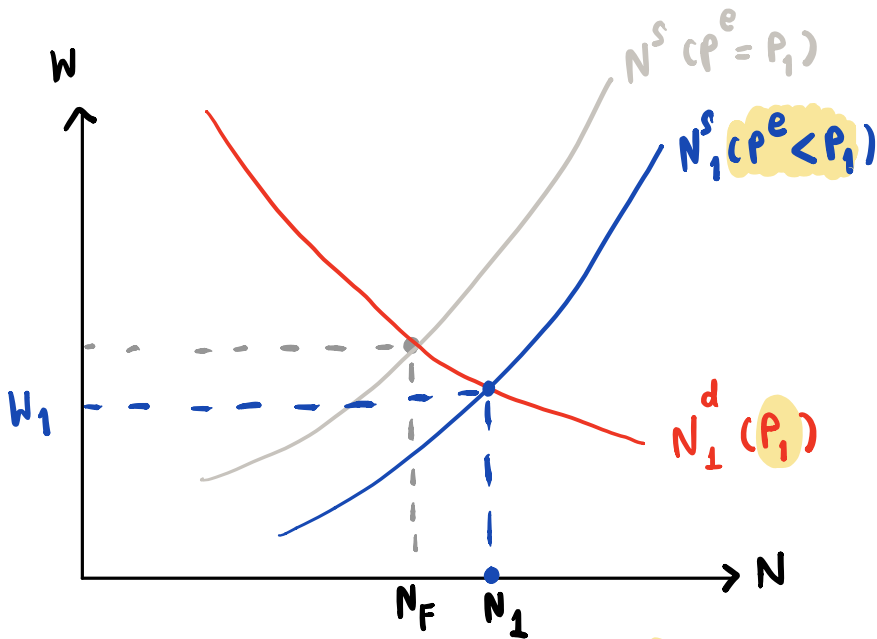
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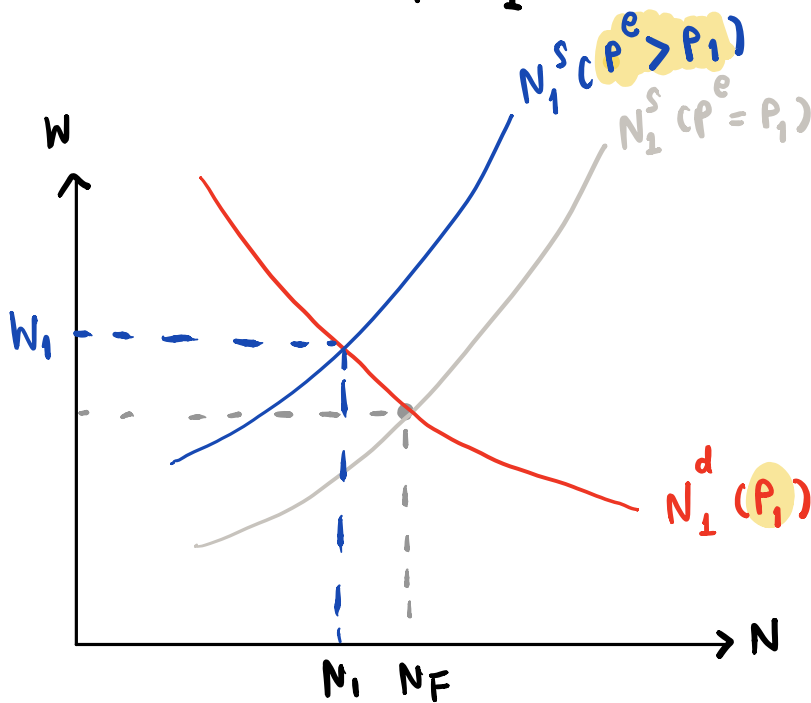
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$$\frac{W_1}{P_1} = W_F$$



$$P = P_1 > P^e$$

$$\frac{W_1}{P_1} < W_F$$



$$P = P_1 < P^e$$

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