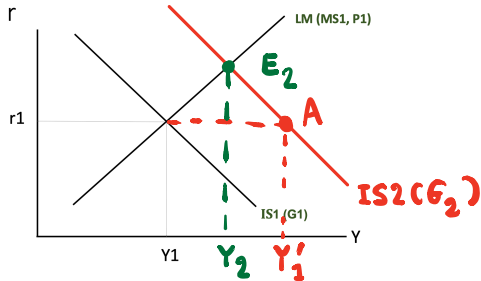


EE312 (2/2019 Section 046402): Quiz 1. The Core IS-LM AD-AS [100 marks 10 Min.]

PART 1. (40 marks) Short Answer. Answer each question in the space provided.

1. (20 marks) Suppose government expenditure (G) increases. Please show the effect on the graph below. Specify the size of the multiplier effect and the crowding out effect.

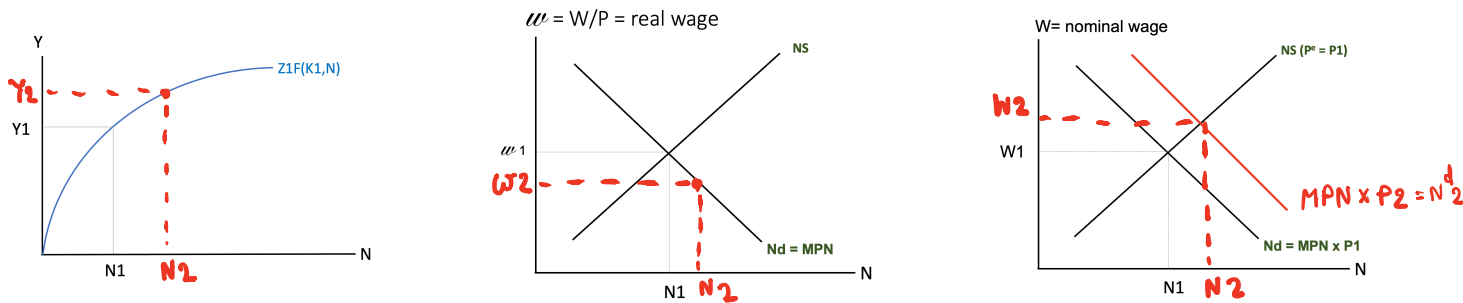


- Multiplier effect is Y_1, Y_1'
- Crowding-out effect is Y_1', Y_2

2. (10 marks) For the same amount of the change, which one would produce a bigger shift of IS curve, T or G and why?

G, because government multiplier = $\frac{1}{1-b}$ which is greater than tax multiplier = $-\frac{b}{1-b}$

3. (10 marks) Given that technology and aggregate capital remain the same (Z and K remain the same). Suppose price level increases from P_1 to P_2 . Producers adjust the price accordingly while workers' expectation on price (P^e) remains the same. What will happen to the production function and labor market? Show the effect on the graphs below.



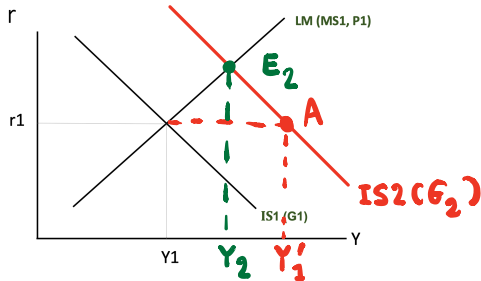
PART 2. (60 marks) Multiple choices. Consider labor demand/labor supply as a function of “nominal wage”. Please choose the correct answer by circling the choice.

- (10 marks) Suppose workers' expected price increases (P^e increases). What is the effect on labor supply?
 - a. Ns shifts to the left
 - b. Ns shifts to the right
 - c. Ns remains the same.
 - d. No correct answer given
- (10 marks) Suppose there is a positive productivity shocks. Labor's expected price remain the same (P^e remains the same). What is the effect on labor market?
 - a. Ns shifts to the left
 - b. Ns shifts to the right
 - c. Nd shift to the left
 - d. Nd shifts to the right
- (10 marks) Suppose price level increases. Workers' expected price remains the same. Producers notice the increase in the price level. What is the effect on labor market?
 - a. Ns shifts to the left
 - b. Ns shifts to the right
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- (10 marks) Suppose producer calculate the price correctly but workers miscalculate the price. Workers' expected price is lower than the equilibrium price ($P^e < P^*$). Which of the following is correct?
 - a. $N^* > N_F$
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 - c. $N^* = N_F$
 - d. No correct answer given
- (10 marks) Suppose both producers and workers calculate the price correctly ($P^e = P^*$). Which of the following is correct?
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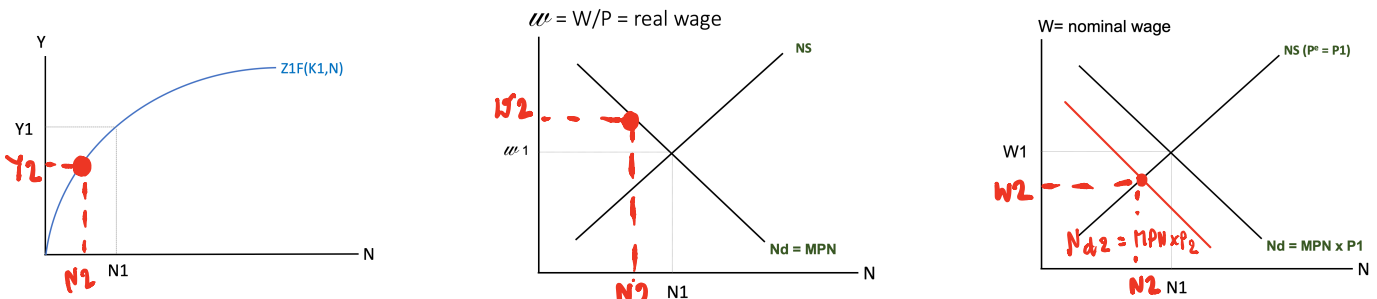


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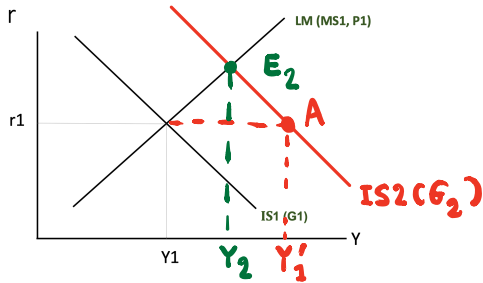
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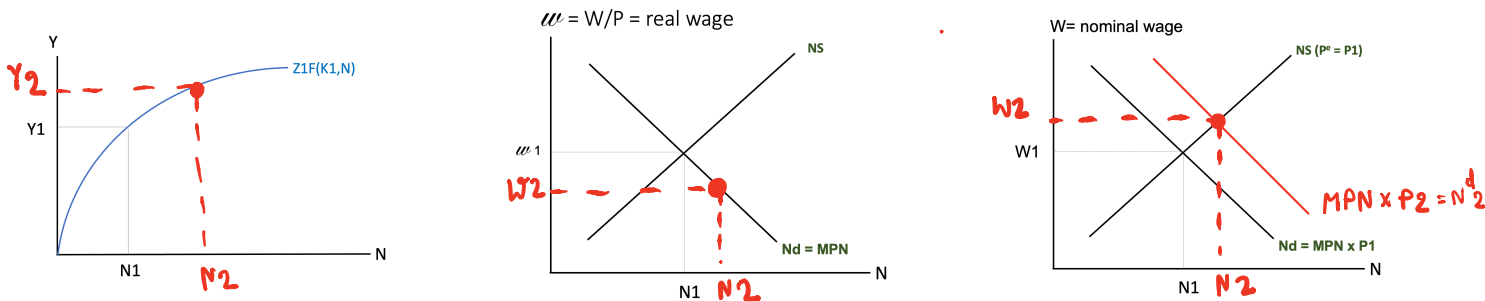


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