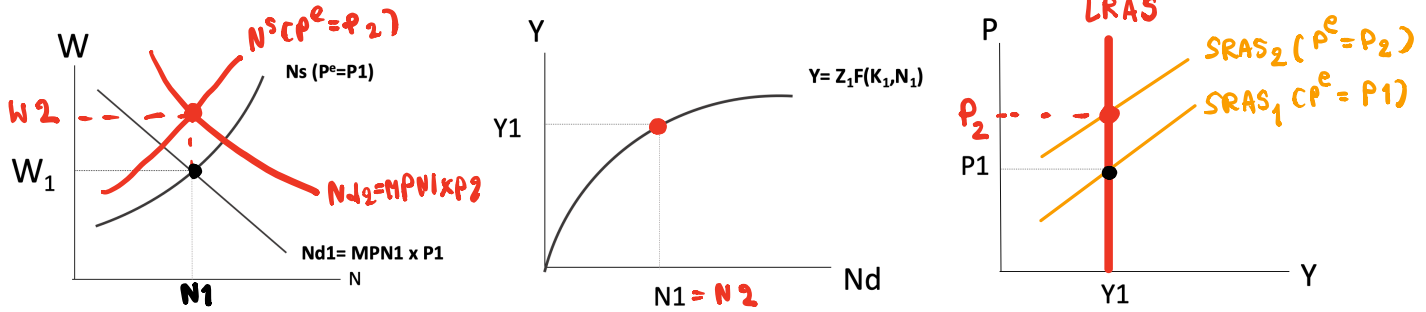


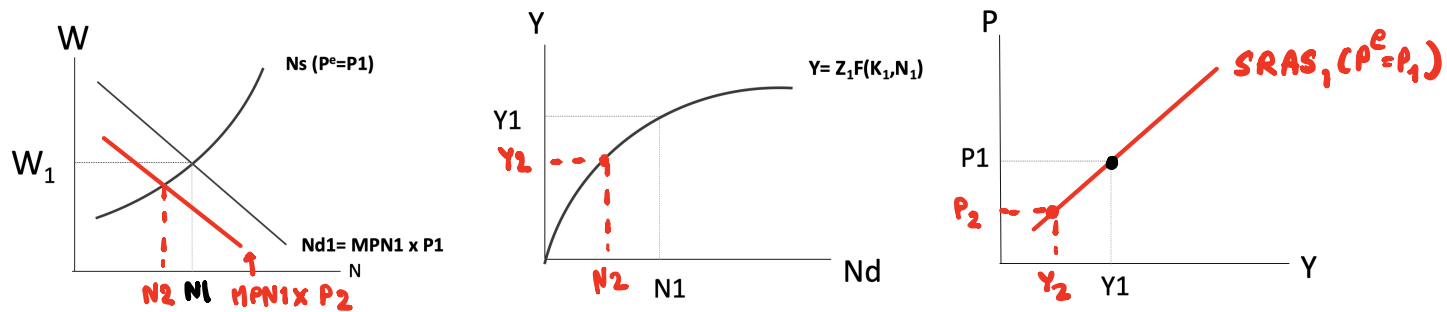
EE312 (2/2019 Section 046402): Quiz 2. The Core IS-LM AD-AS [100 marks 10 Min.]

PART 1. (30 marks) Short Answer. Answer each question in the space provided.

1. (15 marks) In the long run, workers always adjust their expected price. Expected price is always equal to actual price ($P^e = P$). Please show how to drive LRAS. Given that price level increases from P_1 to P_2 .



2. (15 marks) Given that $P^e = P_1$. In the short run, when actual price changes, workers do not adjust their expected price. Please show how to derive SRAS function. Given that price level decreases from P_1 to P_2 .



PART 2. (40 marks) Consider labor demand/labor supply as a function of “nominal wage”. Please choose the correct answer from the brackets.

- (20 marks) Given that worker’s expected price remain constant. To derive SRAS function,
 - as actual price, P , increases, labor [demand, supply] shifts to the [right, left].
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 - This is a [movement along, a rightward shift in, a leftward shift in] SRAS curve.
- (20 marks) Suppose worker’s expected price decreases, $P^e \downarrow$,
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 - As a result, employment [increases, decreases, remains the same]. Output [increases, decreases, remains the same] for all levels of price.
 - Then, SRAS [shifts to the right, shifts to the left, remains the same].

PART 3. (30 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 there is a positive productivity shocks ($Z \uparrow$). What is the effect on Short-run Aggregate Supply?

a. SRAS shifts to the right b. SRAS shifts to the left c. SRAS remains the same d. else, specify.....
- (10 marks) Suppose workers’ expected price decreases (P^e decreases). What is the effect on Short-run Aggregate Supply?

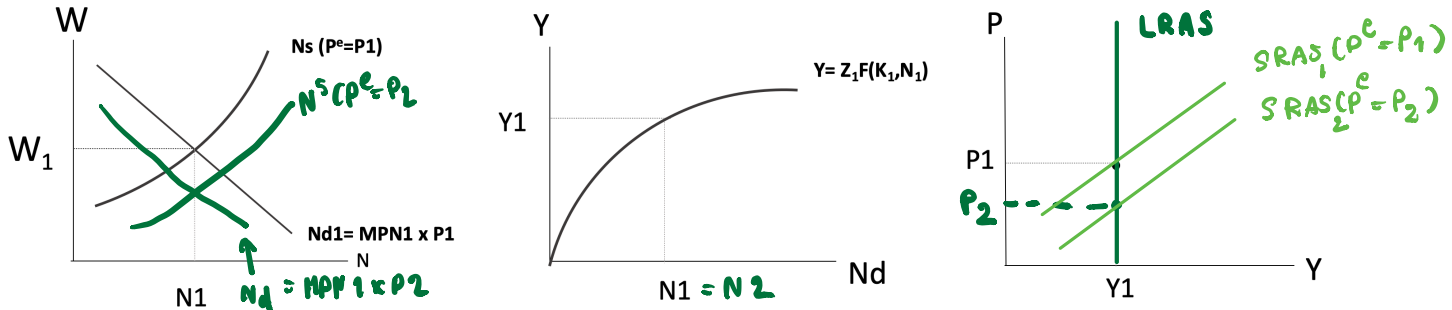
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a. $N_1 < N_F$ and $Y_1 < Y_F$ b. $N_1 = N_F$ and $Y_1 = Y_F$ c. $N_1 > N_F$ and $Y_1 > Y_F$ d. else, specify.....

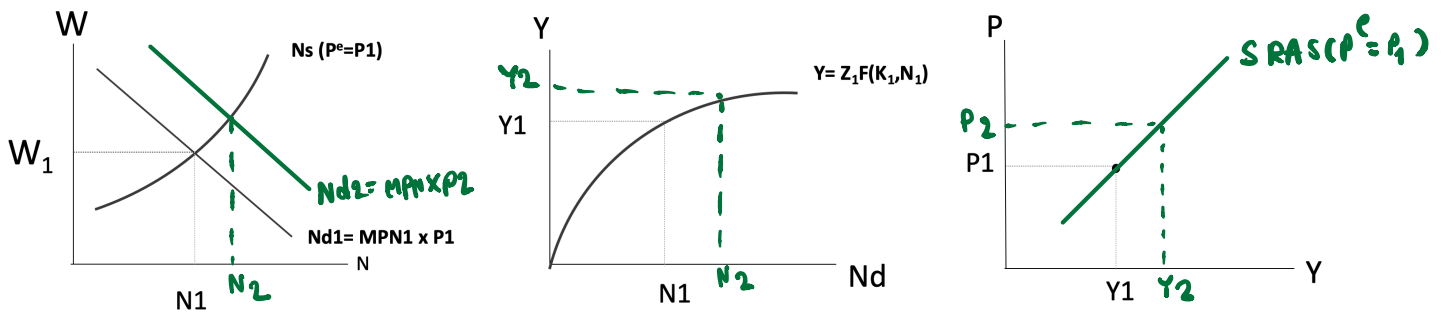
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PART 3. (30 marks) Multiple choices. Consider labor demand/labor supply as a function of “nominal wage”. Please choose the correct answer by **circling** the choice.

- (10 marks) Suppose there is a negative productivity shocks ($Z \downarrow$). What is the effect on Short-run Aggregate Supply?

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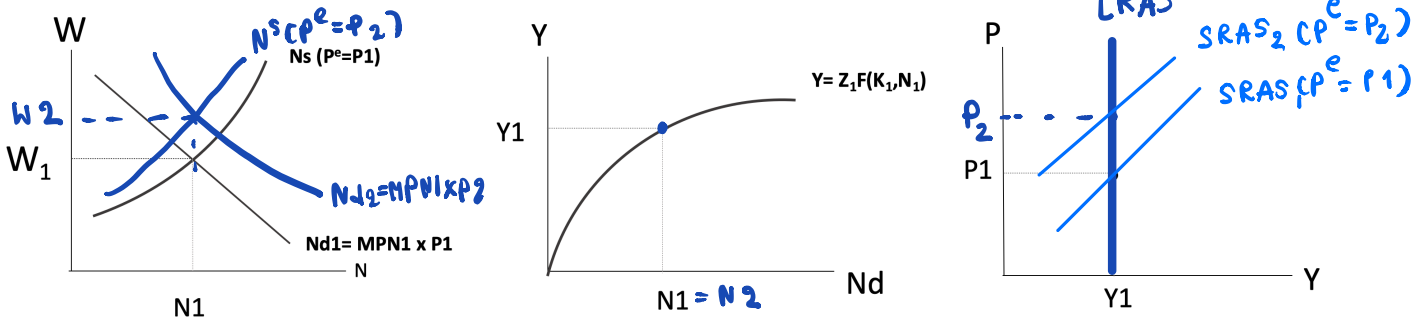
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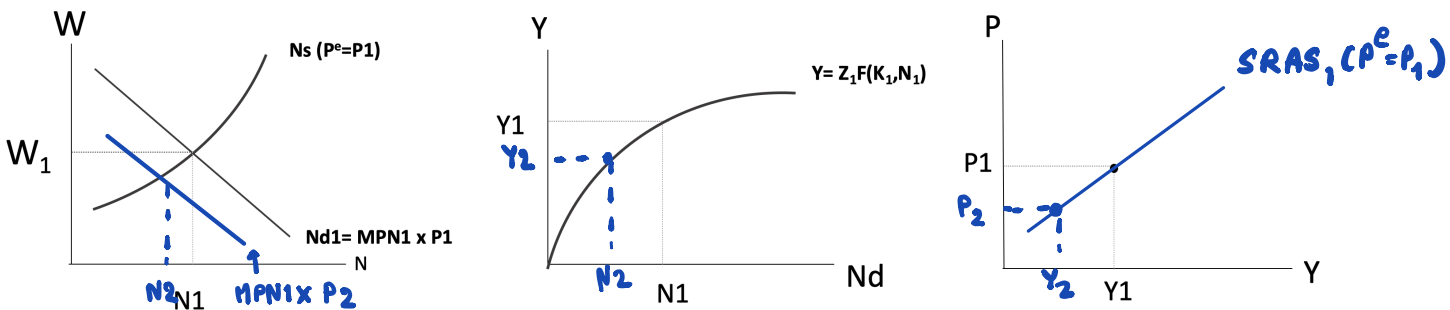
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PART 3. (30 marks) Multiple choices. Consider labor demand/labor supply as a function of “nominal wage”. Please choose the correct answer by **circling** the choice.

- (10 marks) Suppose there is a positive productivity shocks ($Z \uparrow$). What is the effect on Short-run Aggregate Supply?

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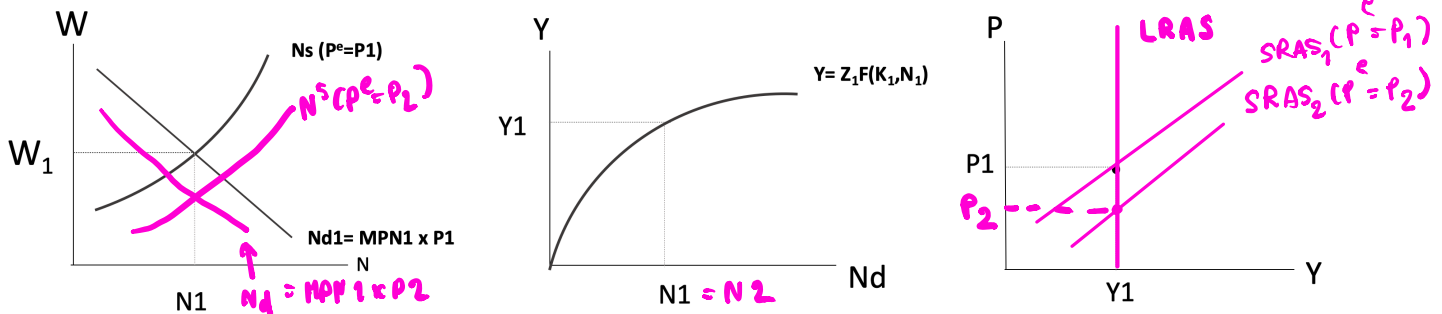
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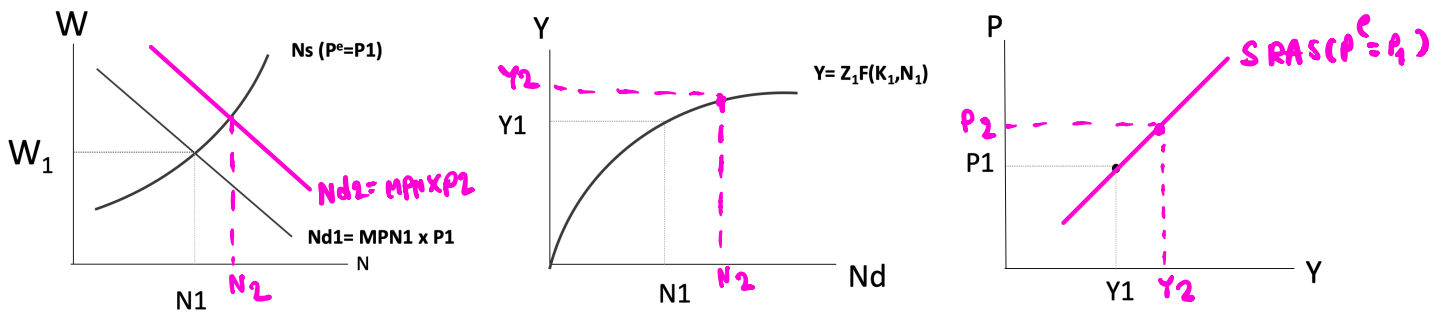
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