Masters Macroeconomics | Fall 2015
Short Questions #6 | Due: 11 November

1. Why does the aggregate-demand curve based on the quantity theory slope downward? In other words, why does an increase the price level require lower expenditures if M and V are unchanged?

2. Why might prices respond to changes in demand in the long run but not in the short run? Show on a graph the effect of an increase in AD in the short run, how the SRAS moves as the short run becomes the long run, and where the economy ends up in the long run after the increase in AD.

3. How does a decrease in oil prices affect the SRAS and/or AD curves of oil-consuming countries? Based on your analysis, should output be high or low right now? Should inflation be high or low? Explain.

4. Explain the process by which an increase in government spending in the "Keynesian cross" model leads to a "multiplier" effect, i.e., an increase in government spending of €1 leads to an increase of aggregate demand that is greater than €1.