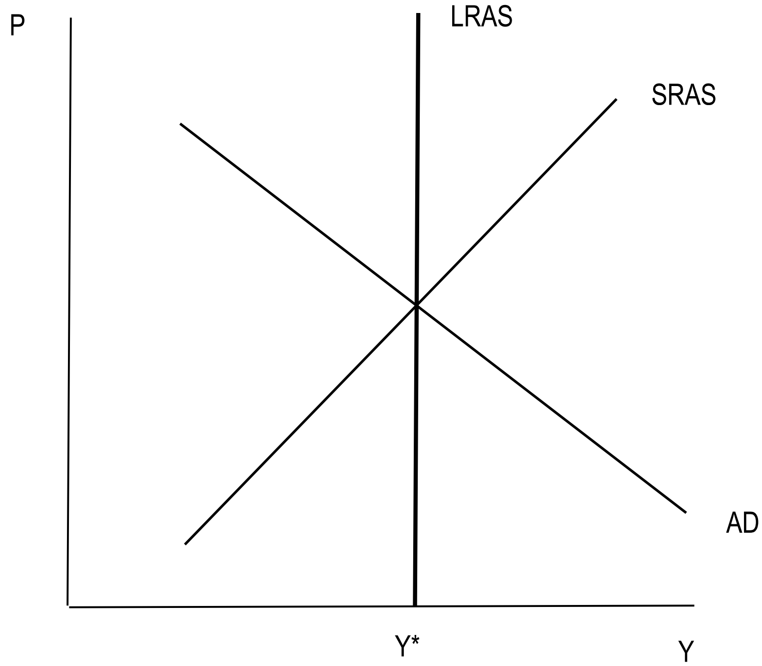
Economics 314 Spring 2019

Daily Problem #21 March 8



Modern business-cycle theory generally attributes cycles to external shocks to the economy. In terms of the simple aggregate-supply-aggregate-demand model we studied earlier, we often classify these shocks as "supply shocks" or "demand shocks" (or perhaps both) depending on which curve is likely to be more strongly affected.

For each of the following shocks, tell whether you think it should be classified as a demand shock or a supply shock, and how it would affect the curves above and the short-run equilibrium levels of output and prices:

1. Increased government spending on military.
2. Increased government spending on infrastructure (roads, bridges, communications, etc.)
3. Increased optimism of consumers about future growth.
4. A positive shock to worker productivity.
5. A harsh winter that closes businesses, airports, etc.
6. A drought that reduces agricultural output.
7. A financial crisis.
8. More efficient matching of workers searching for jobs with available vacancies.
9. A sharp contraction of the money supply by the central bank.
10. A steep recession abroad.