ECO 102: Introduction to Macroeconomics
Problem Set #4
Lectures 7 & 8
Due Date: 31 July, 11AM
Total Points: 30

Problem 1: Long-Term Growth in the AD-AS Model [8 Points]

This will be a graph shifting question, which asks about the intuition of both the AD-AS figures and the I-NS figures, specifically relating them to long-term growth.

Suppose that the economy uses (only) two major inputs in its production: capital (K) and labour (L). Suppose also that we are thinking about long-term growth, specifically through productivity growth.

1. Suppose that there is an increase in the productivity of input in this economy. What would we expect to happen to Y* in the long-run? Explain your answer. [2 points]

As productivity increases, the economy now can produce more output (Real GDP) with a given