Problem Set 6 with Solutions

Lecture 6: Aggregate Demand and Aggregate Supply, AD Shocks, Long-Run and Short-Run AS, Long-Run Macroeconomic Equilibrium, and the Dynamic AD-AS Model

1. In each case below, assume an economy initially at potential GDP. Constraining yourself to shifting one curve, what can explain the following:

(a) Starting from potential GDP, followed by a period of high unemployment and high inflation.

(b) Starting from potential GDP, followed by a period of low unemployment and high inflation.

(c) Starting from potential GDP, followed by a period of high unemployment and low inflation.