

- e. (1 point) Suppose the government decides to enact fiscal policy in order to reach full employment. Suppose the government enacts a change in government spending to reach this goal. Calculate what this change in government spending must be in order for this economy to reach full employment. Assume everything else is held constant. Show your work.

2. Consider the AD/AS model of the aggregate economy developed in class. Assume this model is initially in long-run equilibrium where the economy is producing at Y_f .

- a. (1 point) Suppose that there is a negative demand shock to this economy. Given this change, and holding everything else constant, what do you predict will happen to the aggregate level of real GDP and the aggregate price level in the short run? Explain your answer (it's fine to use a graph to illustrate your answer, but include explanatory words as well).

- b. (1 point) Given the negative demand shock described in (a), what happens to the unemployment rate in the short run? Explain your answer.

- c. (2 points) What do you predict will happen in this economy in the long run given this negative demand shock and holding everything else constant? Explain your answer.