

**Answers to Review Problems for Test #2**

I do not show my work. You would need to show your work to get full credit on the exam.

A. (1) False. They hire fewer workers.

(2) True. Competition drives profit to zero even though firms price above marginal cost.

(3) False. This causes a movement upward along the aggregate demand curve.

(4) False. The aggregate supply curve must be vertical for this to happen. Instead, only output, not the price level, will change when aggregate supply is horizontal.

B. (1) 106.2

(2) some ideas: changes in G, changes in T, changes in baseline consumption  $C_0$

(3) \$361.62

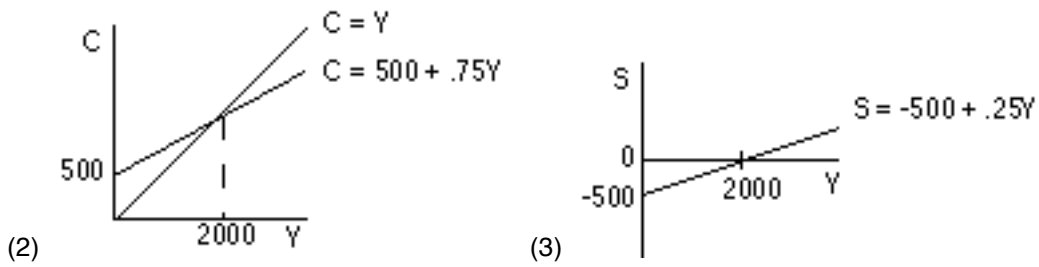
(4)

	Assets		Liabilities
Reserves	\$18,000	Deposits	\$108,000
Loans	\$110,000	Capital	\$20,000
	\$128,000		\$128,000

C. (1)  $Q = 450, P = 110$

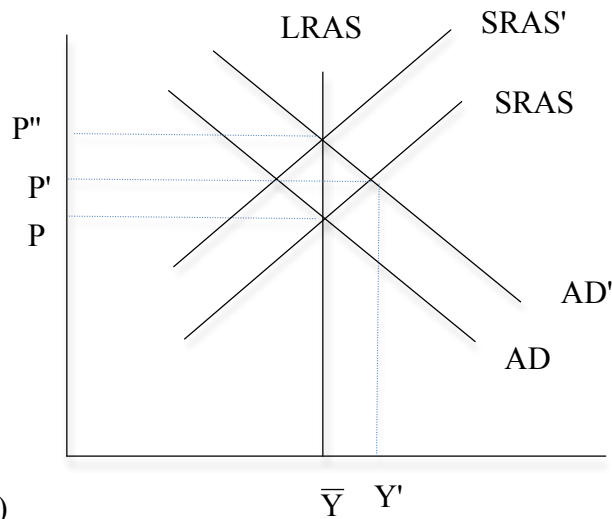
(2) 30,500

D. (1) 4



(4) 4800

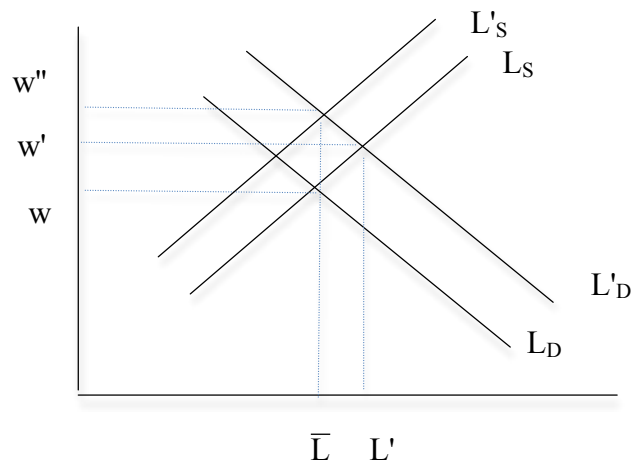
(5) 700



E. (1) and (4)

(2) AD shifts to the northeast, P and Y increase.

(3) SRAS shifts to the northwest, P increases, Y decreases.



(5) first labor demand shifts NE due to increased output, then labor supply shifts NW as workers push for higher nominal wages (i.e., require a higher wage for each level of L they provide)