

Manipulating AE #2

Level of Employment	Real GDP	AE0	AE1	AE2	C	I	X	M	G
70	450				425	23	20	15	12
75	465				435	23	20	15	12
80	480				445	23	20	15	12
85	495				455	23	20	15	12
90	510				465	23	20	15	12
95	525				475	23	20	15	12
100	540				485	23	20	15	12

Questions for Manipulating AE

- 1) What are the Aggregate Expenditures (AE₀) at each possible level of employment?
- 2) Graph AE (relative to GDP = AE - 45° -line), Label it AE₀
- 3) At what level of employment is the economy at Equilibrium GDP?
- 4) (a) What is the MPC? (b) What is the MPS? (c) What is the Multiplier?
- 5) Assume government increased its spending by 10 (from 12 to 22).
 - (a) By how much will AE increase?
 - (b) By how much will Equilibrium GDP increase?
- 6) Graph this new AE; label it AE₁ (draw an arrow to show this change in AE)
- 7) Assume that *instead* government DECREASED its spending by 10 (from the original of 12 to 2).
 - (a) By how much will AE decrease?
 - (b) By how much will Equilibrium GDP decrease?
- 8) Graph this new AE; label it AE₂ (draw an arrow to show this change in AE)
- 9) Would the results of AE₁ and AE₂ have been the same had net exports increased by 10 and decreased by 10? Explain.
- 10) If the full level of employment is 65 million people:
 - (a) at AE₀ there will be a (recessionary / inflationary) gap of _____.
 - (b) at AE₁ there will be a (recessionary / inflationary) gap of _____.
 - (c) at AE₂ there will be a (recessionary / inflationary) gap of _____.
- 11) If the full level of employment is 80 million people:
 - (a) at AE₀ there will be a (recessionary / inflationary) gap of _____.
 - (b) at AE₁ there will be a (recessionary / inflationary) gap of _____.
 - (c) at AE₂ there will be a (recessionary / inflationary) gap of _____.