

Quiz 3

Name: Answer Key

1. True or false (3 points):

In the short run, only output prices change, whereas in the long run, both output and input prices change.

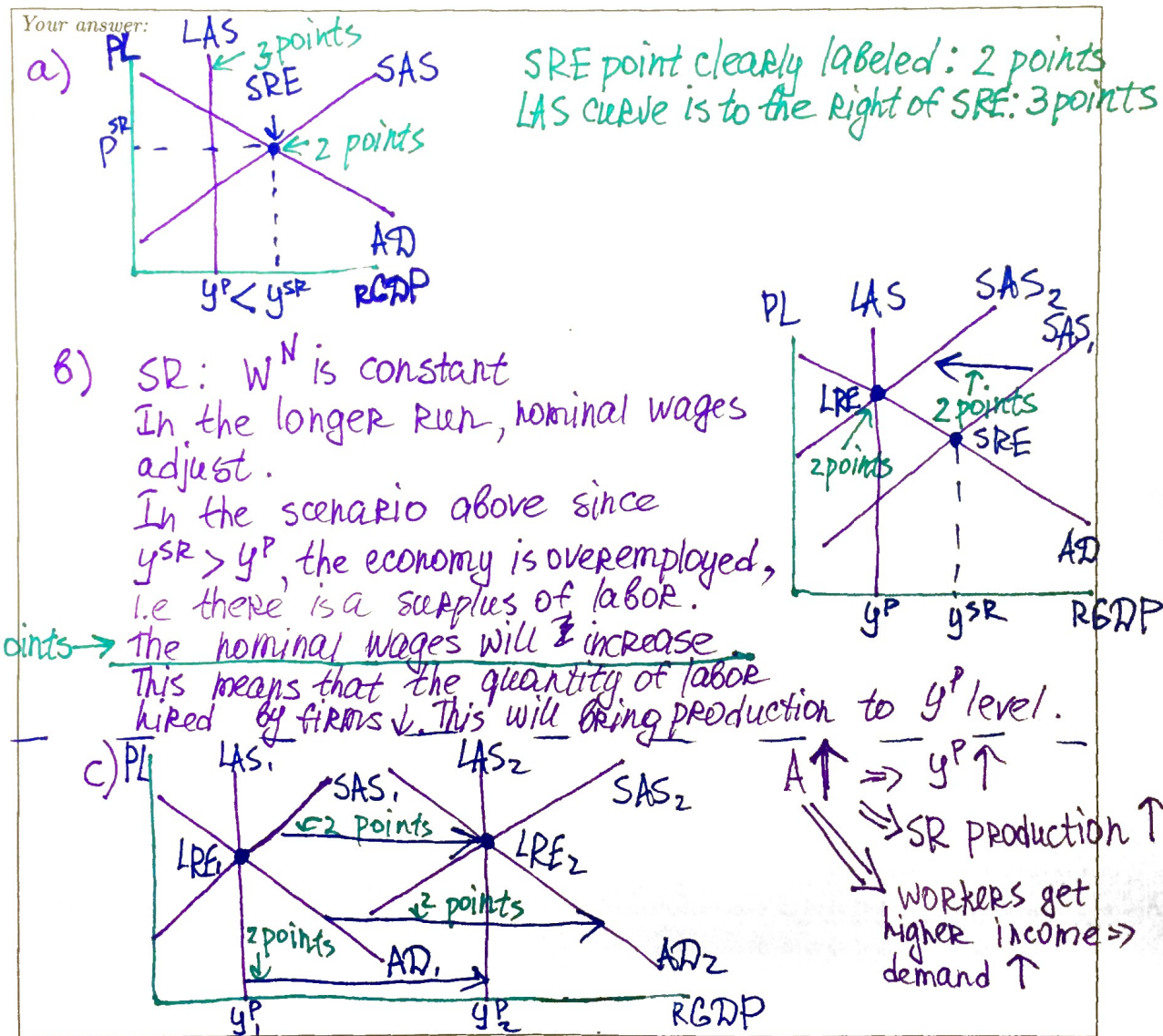
Your answer: T

SR: only price level changes

LR: price level + nominal wages change

2. Short answer (17 points):

- 5 points a) Plot short-run macroeconomic equilibrium for the case where equilibrium real GDP exceeds potential GDP.
 6 points b) Briefly explain how the economy transitions to the long-run macroeconomic equilibrium. Plot the long-run macroeconomic equilibrium. Use arrows to show the transition.
 6 points c) Show using plot(s) what happens to the short-run and long-run equilibria if the production technology permanently improves. Make sure to label all the axes, curves, and equilibria points and use arrows.



1 not labeled/mislabeled axis or curve: -0.5 points