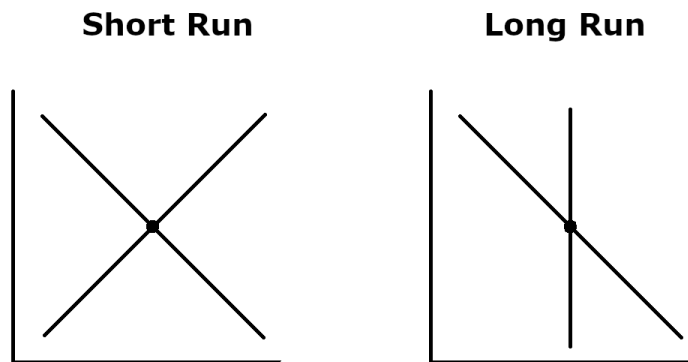
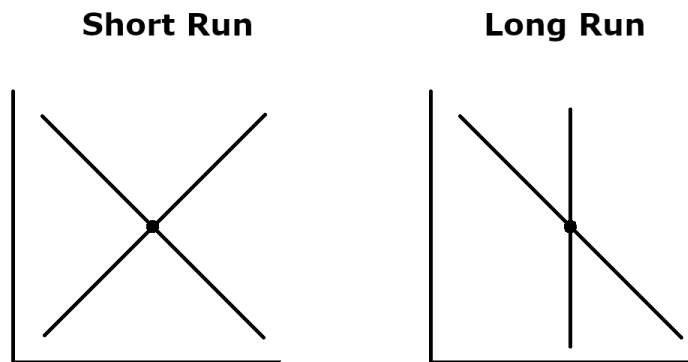


Shocks to the Economy

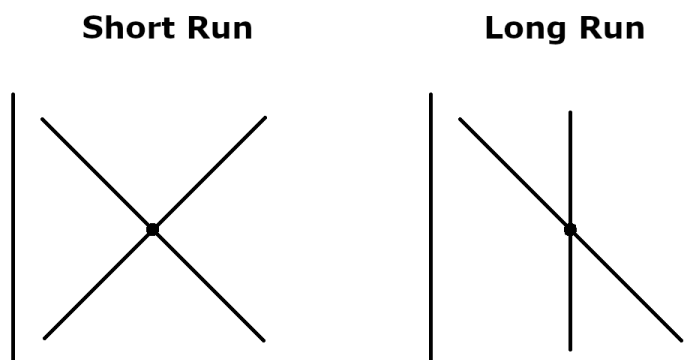
1. Suppose people become uncertain about the future and so buy less today. The demand for consumption decreases. Illustrate the short-run and long-run effects:



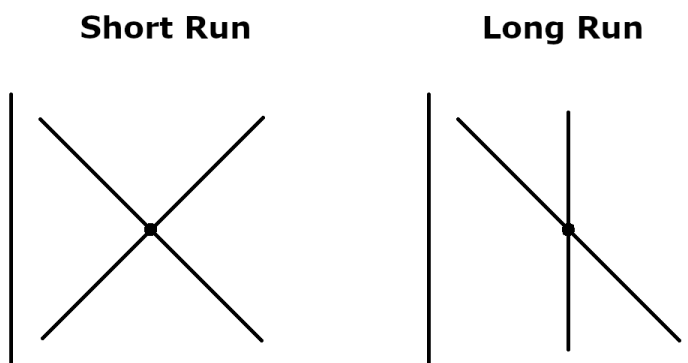
1b. Suppose that demand for consumption decreases AND the government increases the money supply to stimulate consumer spending. Illustrate the short-run and long-run effects:



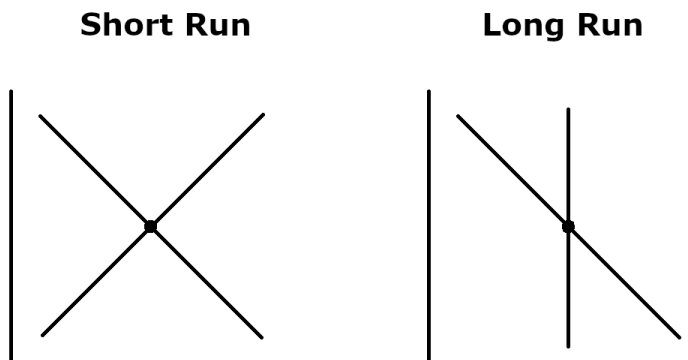
2. Suppose there's a war. The demand for government purchases increases. Illustrate the short-run and long-run effects:



3. Suppose an oil shortage *temporarily* increases the costs of production. Illustrate the short-run and long-run effects:



3b. Suppose there's an oil shortage AND the government increases the money supply to stimulate consumer spending. Illustrate the short-run and long-run effects:



4. Suppose a new technology permanently increases total factor productivity. Illustrate the short-run and long-run effects:

