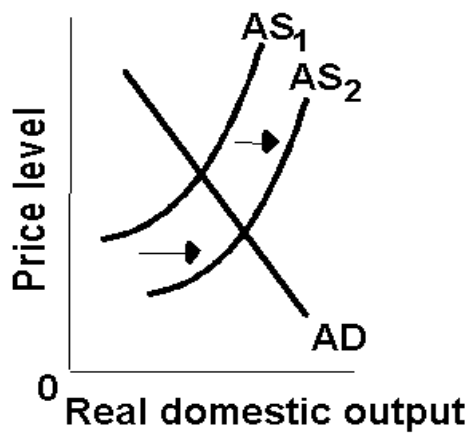


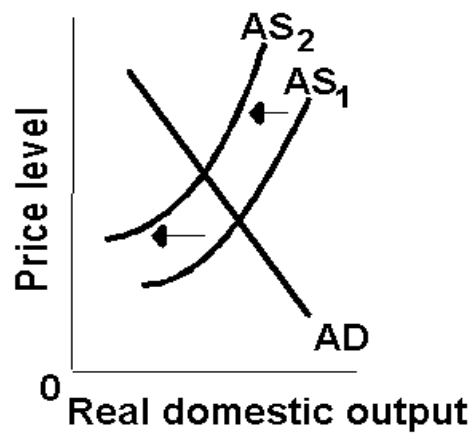
PRACTICE EXERCISES FOR CHAPTER 9

The exercises below are designed to facilitate your understanding of the mathematical and graphical concepts relevant to Chapter 9. Use your lecture notes and textbook to complete the problems and THEN “grade” yourself using my solutions, which are provided on the last few pages of this packet. **Remember, completing this exercise set is only a PART of the exam preparation process in this course!**

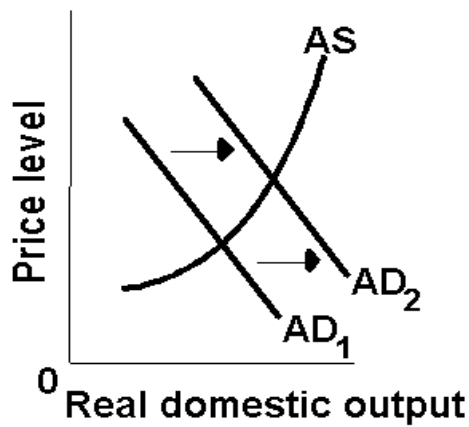
Use these panel graphs to answer the questions below and on the next two pages.



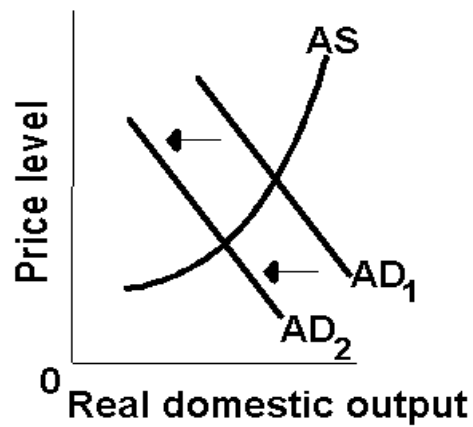
(A)



(B)



(C)



(D)

1. Which of the panels BEST reflects the impact of an increase in energy prices?

2. Which of the panels BEST reflects the impact of a severe hurricane season for the Gulf Coast states?

3. Which of the panels BEST reflects the impact of a significant decline in stock prices?

4. Which of the panels BEST reflects the impact of a decrease in personal income taxes?

5. Which of the panels BEST reflects the impact of a decrease in interest rates?

6. Which of the panels BEST reflects the impact of a decrease in the price of steel?

7. Which of the panels BEST reflects the impact of a boom in the real estate market?

8. Which of the panels BEST reflects the impact of business owners' expectations for strong economy in the next year?

9. Which of the panels BEST reflects the impact of a large decrease in the value of real estate holdings?

10. Which of the panels BEST reflects the impact of increased government spending for infrastructure projects?

11. Which of the panels BEST reflects the impact of a milder than expected winter in the Midwest states?

12. Which of the panels BEST reflects the impact of a severe recession occurring in China and Japan, two major trading partners for the US?

13. Which of the panels BEST reflects the impact of an advancement in technology that significantly increases labor productivity?

14. Which of the panels BEST reflects the impact of an increase in average wages for workers?

15. Which of the panels BEST reflects the impact of a boom in the US stock markets?

16. Which of the panels BEST reflects the impact of a decrease in government spending on the Social Security Program?

17. Which of the panels BEST reflects the impact of a terrorist attack that destroys seaports, airports, interstate highways and office buildings all along the West Coast of the US?

18. Which of the panels BEST reflects the impact of an increase in interest rates?

19. Which of the panels BEST reflects the impact of a decrease in the length of the average workweek, which significantly decreases labor productivity?

20. Which of the panels BEST reflects the impact of business owners' expectations for weak economy in the next year?

21. Which of the panels BEST reflects the impact of a strong period of economic growth in Mexico and Canada, two major trading partners for the US?

22. Which of the panels BEST reflects the impact of an increase in personal income taxes?

MY SOLUTIONS

(1) PANEL B: An increase in the price of a major resource will make production more expensive for many business owners. They will respond by producing less output at all price levels. AS decreases – shifts to the left.

(2) PANEL B: This is an example of a negative supply shock. A severe hurricane season will result in the destruction of many businesses and roads in the Gulf Coast area. The ability to produce and transport goods and services will be reduced. AS decreases – shifts to the left.

(3) PANEL D: A decrease in the value of consumer wealth holdings will cause people to be more cautious and spend less today. AD decrease – shifts to the left.

(4) PANEL C: A decrease in personal income tax rates will increase the disposable incomes of millions of American consumers. They will respond by increasing their consumption spending. AD increases – shifts to the right.

(5) PANEL C: Lower interest rates will make it cheaper for both businesses and consumers to borrow money. More spending will take place in the economy. AD increases – shifts to the right.

(6) PANEL A: A decrease in the price of a major resource will make production less expensive for many business owners. They will respond by producing more output at all price levels. AS increases – shifts to the right.

(7) PANEL C: An increase in the value of consumer and business wealth holdings will cause people to more willingly spend money TODAY. AD increases – shifts to the right.

(8) PANEL C: Expectations of a strong economy in the near future will provide the incentive for business owners to increase their investment spending TODAY. AD increases – shifts to the right.

(9) PANEL D: A decrease in the value of consumer and business wealth holdings will make people more cautious in spending money TODAY. AD decreases – shifts to the left.

(10) PANEL C: An increase in government spending on goods, services or public capital projects will cause an increase in total spending in the economy. AD increases – shifts to the right.

(11) PANEL A: This is an example of a positive supply shock. Due to the mild winter weather, firms in this area will be open for business more calendar days than planned, and thus able to produce a larger total quantity of goods and services. AS increases – shifts to the right.

(12) PANEL D: When our major trading partners go into recession, they spend less money on goods and services. That includes less spending on American-made goods and services – our exports. AD decreases – shifts to the left.

(13) PANEL A: An increase in labor productivity will allow many businesses to produce more total goods and services from the same number of worker hours. AS increases – shifts to the right.

(14) PANEL B: An increase in average wages will make producing goods and services more costly for lots of business owners, so they will reduce their level of production and employ fewer workers. AS decreases – shifts to the left.

(15) PANEL C: An increase in the value of consumer wealth holdings will cause people to more willingly spend money today. AD increase – shifts to the right.

(16) PANEL D: A decrease in federal government spending on the Social Security program means that millions of retired Americans will start receiving smaller benefit checks in the mail each month. When retirees have less money, they spend less money. AD decreases – shifts to the left.

(17) PANEL B: This is an example of a negative supply shock. Such a terrorist attack would destroy a lot of our infrastructure, making it more difficult (temporarily) to produce and transport goods and services. AS decreases – shifts to the left.

(18) PANEL D: Higher interest rates will make it more costly for consumers to borrow money to buy houses and cars, and more costly for business owners to borrow money to build new factories and buy new capital equipment. AD decreases – shifts to the left.

(19) PANEL B: A decrease in labor productivity means that workers produce a smaller quantity of goods and services while on the job, so less total output is produced in the economy. AS decreases – shifts to the left.

(20) PANEL D: Expectations of a weak economy in the near future will provide the incentive for business owners to decrease their investment spending TODAY. AD decreases – shifts to the left.

(21) PANEL C: A strong period of growth in the economies of our trading partners will cause them to purchase more goods and services – including our exports. AD increases – shifts to the right.

(22) PANEL D: An increase in personal income tax rates will decrease the disposable incomes of millions of American consumers. They will respond by decreasing their consumption spending. AD decreases – shifts to the left.