**RWS#6: Macroeconomic Equilibrium**

**Due for: Monday 3rd February 2020**

|  |
| --- |
| **GENERAL INSTRUCTIONS:**  *Please complete a revision worksheet summarizing the work from the last two weeks. The work should be taking you* ***up to 3 hours*** *to complete and should consist of a 1 A4 double paged summary based on the questions below. Please print out a double sided version to be handed in and marked on the date above (emails will not be accepted so make sure you are printing off your sheet before the lesson).*  *Remember to use all of the space over your two sides of A4 and make sure the ‘margins’ in Word are put as ‘narrow’. Feel free to reduce the size of the font if you are running out of space but nothing less than size 10. A better way to reduce would be to reread what you have written and try to be more succinct; it must fit onto two sides of A4 only!*  *You should be reading and using all the compulsory resources below (remember you will have already read an awful lot of these for homework and in class but there are a few extras I want you to read.*  *This revision worksheet should be taking you 2.5 hours…I suggest you spend 45 minutes writing up all your notes from class into a rough draft. Then, spend the next hour reading any extra information or clarifying concepts if you do not understand them. Then use the final 45 minutes to edit the work, make it look pretty and print it off.*  *REMEMBER THAT IF YOU DO NOT HAVE A PRINTER AT HOME YOU MUST FIND TIME BEFORE THE LESSON TO PRINT IT OFF AT COLLEGE*  *ALSO MAKE SURE THAT AS WELL AS STORING A COPY ON A MEMORY STICK, YOU ALSO EMAIL YOURSELF SO THERE CAN BE NO COMPUTER ISSUES WHEN IT COMES TO PRINTING OFF YOUR WORK* |
| **SOURCES**  **COMPULSORY (YOU MUST USE)**   * Course Textbook (online via the library website) – pp160-214 (just skim read; some of these chapters you have read before for previous RWS’s but now you have the AD/AS Analysis to help * Class powerpoint and worksheets (all on GOL) * Class notes you have taken   **EXTENSION (IF YOU HAVE TIME, TRY TO READ 1 or 2 OF THESE – I am not sure you will be able to read all of them!!!)**   * Economics Help and Tutor2U websites   **ALL OF THESE RESOURCES CAN BE FOUND ON GODALMING ONLINE – ANY ISSUES, EMAIL OLLY on** [**ods@godalming.ac.uk**](mailto:ods@godalming.ac.uk) |

|  |
| --- |
| **SPECIFIC INSTRUCTIONS:**  **TITLE: RWS6 – Macroeconomic Equilibrium**  **AD/AS Model Basics (1/4 side of A4)**  Using two diagrams, explain the difference between short run equilibrium and long run equilibrium in an AD/AS model  **Economic Growth and AD/AS Model (3/4 side of A4)**   1. Draw a PPF diagram, an economics cycle diagram and an AD/AS model to demonstrate the following:    1. Actual Growth    2. Negative Output Gap    3. Positive Output Gap 2. Draw a PPF diagram and an AD/AS model to demonstrate trend growth rate 3. What is the difference between demand side (shift in AD) and supply side growth (shift in LRAS) and how are they represented on an AD/AS diagram?   **Price Levels and AD/AS Models (1/4 side of A4)**  Draw two diagrams (and label them diagram 1 and 2) in short run equilibrium with a negative output gap and for each diagram, model the answer to these two causes of inflation.   1. **Demand pull inflation:** *“Boris Johnson’s new BREXIT deal creates more certainty in the UK economy and business confidence is rising.”* Why might this result in ‘demand pull inflation’ using diagram 1? 2. **Cost push inflation:** Since June 2016, and the BREXIT vote, the pound has fallen to low levels. Explain why this might result in ‘cost push inflation’ from 2016 to 2020 using diagram 2   **Unemployment and AD/AS Models (3/4 side of A4)**   1. Provide a brief overview of the impact of the financial crisis’ of 1929 and 2008 2. Provide a brief overview of how Keynesians and Classicals (Hayek) view about why unemployment has been persistent in episodes of history like the Financial Crisis’ of 1929 and 2008 3. Controversy with Long Run Equilibrium: What should we do with Unemployment?    1. Draw an AD/AS model in short run equilibrium and a negative output gap (representing unemployment). Explain how a classical economist like Hayek would explain how the economy would reach long run equilibrium naturally (through the SRAS and AD). HINT: Free market thinking! Explain why Keynes would criticise this position.    2. Draw an AD/AS model in short run equilibrium and a negative output gap (representing unemployment). Explain how a Keynesian economist would explain how the economy would reach long run equilibrium. HINT: Interventionist thinking! Explain why Hayek would criticise this position.    3. Draw a Keynesian LRAS curve and explain why it is different to the Classical LRAS curve (based on the assumptions above about what is Short Run and Long Run Equilibrium between the two economists). 4. Consensus with Long Run Equilibrium: The Wage Spiral    1. Explain what the wage spiral is using an AD/AS diagram in long run equilibrium and increasing the AD curve.    2. What would be the outcome of moving the AD curve in a situation like this according to both Keynesians and Classical economists?    3. Therefore what do both sets of economists advise with increasing the AD curve once we are on the productive capacity of the economy? |