Class Outline (prepared by Edinaldo Tebaldi, TA)

Homework assigned (Chapter 7, problems 2, 3, 5, and 6)- Due this Monday (03/29/04)

Exam: April 6, 12:40 – 2:00PM

Putting all the markets together, Y, i, P in the short-run and medium-run

The AS –AD model
- Labor market
- Supply-side of the economy
- Shifts in the AS curve

Deriving the AD curve
- Financial Market equilibrium
- Demand-side equilibrium
- Shift in the AD curve

Questions!
Define the AS curve?
Define the AD curve?

What does change in the definition of the “Fundamental idea” in this model? State it!

If P goes up, what happens to the AS curve? Why?
If P goes up, what happens in the labor market? Does equilibrium nominal wage change? Does equilibrium real wage change?

Why is the AS curve upward sloping? What is the logic behind it?
Which are the variables that would cause a shift of the AS curve?

Suppose that the economy is operating at a point over the AS curve and the labor market is in equilibrium. Is this point the natural level of employment? Is this point the natural level of Output? Explain!

If P goes up, does the price of bonds goes up?
If P goes up, holding everything else constant what happens to interest rates?