Solutions

Each answer shows the steps, then the **result**.

2.1

- where the AD curve intersects the SRAS curve

2.2

- equilibrium output lies to the left of (below) full-employment output

2.3

- the gap when equilibrium output is above potential (full-employment) output

3.1 B

3.2 B

3.3

(a)

- an inflationary gap

(b)

- it is rising

(c)

- below the natural rate