Solutions

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

2.1

- high unemployment lowers nominal wages, which lowers costs and shifts SRAS right until output is back at potential

2.2

- they fall

2.3

- potential (full-employment) output

3.1 B

3.2 B

3.3

(a)

- they rise

(b)

- to the left

(c)

- potential output