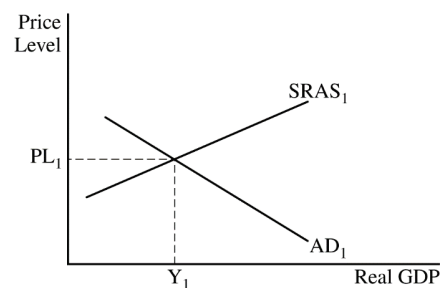


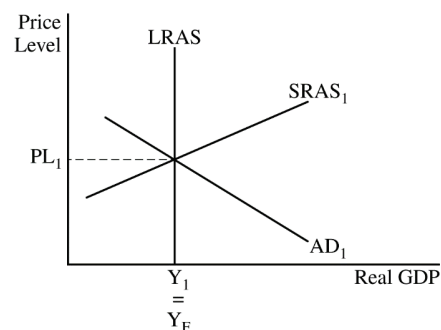
Question 3: Short

5 points

- (a) Draw a correctly labeled aggregate demand–aggregate supply graph that shows PL_1 and Y_1 at the intersection of aggregate demand and short-run aggregate supply. **1 point**

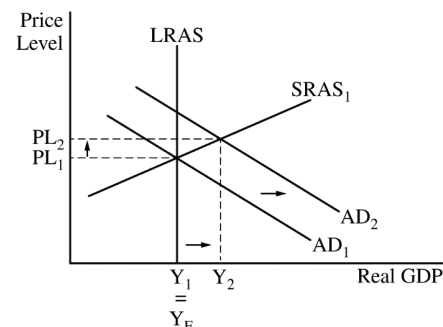


For the second point, the graph must show a vertical long-run aggregate supply curve at equilibrium real output $Y_1 = Y_F$. **1 point**



Total for part (a) 2 points

- (b) On the graph from part (a), show the short-run effect of the increase in consumer confidence as a rightward shift of the aggregate demand curve, resulting in an increase in real output, labeled Y_2 , and an increase in the price level, labeled PL_2 . **1 point**



- (c) State that the central bank would increase its administered interest rates or increase interest on reserves. **1 point**
- (d) State that real output will decrease and explain that the increase in interest rates will decrease interest-sensitive spending (consumption, investment, or net exports), which decreases aggregate demand. **1 point**

Total for question 3 5 points