

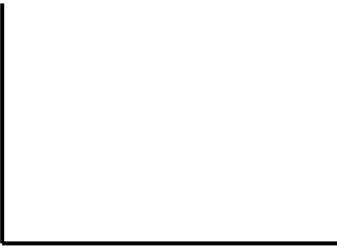





# AD/AS PRACTICE

Name: \_\_\_\_\_

Team: \_\_\_\_\_

The Change	AD/AS Model	The Result
<b>1. Calvin, and other children, convince their parents to purchase more “big ticket” items for the Holidays.</b>		<b>1. Before: A</b> <b>2. Shifter</b> <b>3. After: B</b> <b>4. Gap:</b>
<b>2. The effect on production when a 5% excise tax is placed on several resources.</b>		<b>1. Before: A</b> <b>2. Shifter</b> <b>3. After: B</b> <b>4. Gap:</b>
<b>3. A large purchase of U.S. wheat by Russia</b>		<b>1. Before: A</b> <b>2. Shifter</b> <b>3. After: B</b> <b>4. Gap:</b>
<b>4. A cut in Federal spending for Health Care</b>		<b>1. Before: A</b> <b>2. Shifter</b> <b>3. After: B</b> <b>4. Gap:</b>
<b>5. The complete disintegration of OPEC causing oil prices to fall</b>		<b>1. Before: A</b> <b>2. Shifter</b> <b>3. After: B</b> <b>4. Gap:</b>
<b>6. A 10% decrease in personal income tax rates</b>		<b>1. Before: A</b> <b>2. Shifter</b> <b>3. After: B</b> <b>4. Gap:</b>

# AD/AS PRACTICE SHEET

The Change	AD/AS Model	The Result
7. A significant increase in labor productivity		1. Before: A 2. Shifter 3. After: B 4. Gap:
8. A severe recession in a country that imports many U.S. products.		1. Before: A 2. Shifter 3. After: B 4. Gap:
9. The effect on investment when the government increases the money supply causing interest rates to fall.		1. Before: A 2. Shifter 3. After: B 4. Gap:
10. Widespread fear of depression on the part of consumers		1. Before: A 2. Shifter 3. After: B 4. Gap:
11. To stimulate the economy, the government increases spending on public works programs.		1. Before: A 2. Shifter 3. After: B 4. Gap:
12. A 12% decrease in nominal wages.		1. Before: A 2. Shifter 3. After: B 4. Gap:

## Answer Key

Have the students to start each graph at full employment by drawing the vertical LRAS at the equilibrium quantity. Ask them to identify the most obvious shifter even though some of them can be argued. Remind them that there can be multiple right answers, but like the AP exam, the examples include key words that hint specific changes in AD or AS.

### Sample of what students should draw

The Change	AD/AS Model	The Result
<p><b>1. Calvin, and other children, convince their parents to purchase more “big ticket” items for the Holidays.</b></p>		<p><b>1. Before: A Label Point at original equilibrium</b>  <b>2. Shifter Identify Shifter</b>  <b>3. After: B Label Point After Shift</b>  <b>4. Gap: Identify if the shift results in an inflationary or recessionary gap based on the new output.</b></p>

AD/AS Practice Sheet Answers				
Question	AD or AS	Shifter	Gap Caused	Notes
1.	AD Increase	Consumer Spending	Inflationary	Refers to cartoon below
2.	AS Decrease	Actions of Gov	Recessionary	Key word “effects on production”
3.	AD Increase	Net Exports	Inflationary	Increases demand for US exports
4.	AD Decrease	Gov Spending	Recessionary	G is a shifter of AD
5.	AS Increase	Resource Prices	Inflationary	Oil is a key resource
6.	AD Increase	Consumer Spending	Inflationary	Increases disposable income
7.	AS Increase	Productivity	Inflationary	Key word “productivity”
8.	AD Decrease	Net Exports	Recessionary	Less demand for US exports
9.	AD Increase	Investment	Inflationary	Key word “effect on investment” (This would also effect AS and LRAS when firms buy more capital)
10.	AD Decrease	Consumer Spending	Recessionary	C is a shifter of AD
11.	AD Increase	Gov Spending	Inflationary	G is a shifter of AD
12.	AS Increase	Resource Prices	Inflationary	Wages are cost of production

Adapted from the resources of Sally Dickson, Austin TX



AS THE WAGE EARNER HERE, IT'S YOUR RESPONSIBILITY TO SHOW SOME CONSUMER CONFIDENCE AND START BUYING THINGS THAT WILL GET THE ECONOMY GOING AND CREATE PROFITS AND EMPLOYMENT.

