3 Aggregate supply and fiscal policy – Part 2 — Answers

Answers

Work through these after you have tried the questions yourself.

2.1 short-run aggregate supply slopes upward; long-run aggregate supply is vertical (at full-employment output).
2.2 when output is below the full-employment level, leaving unemployed resources.
2.3 expansionary fiscal policy shifts AD to the right; do it by increasing government spending or cutting taxes.
2.4 expansionary fiscal policy (more spending or lower taxes), to shift AD right and raise output and employment.
2.5 part of a tax cut is saved rather than spent, so less of it feeds into demand, while government spending is all spent directly.