EC2102 Macroeconomic Analysis I
Tutorial 9, Week 12, April 5-9, 2010

Question 1 (This is part of the final exam question of AY2008/9)

Due to the ongoing recession in Country S you have been hired as an Economic Advisor to the Government due to your familiarity with the Keynesian IS/LM-AS/AD framework where nominal wage rate is sticky.

PART A

Since no one else you are working with is familiar with this framework, you have to:
(i) explain how to derive the AS curve; and
(ii) explain how to derive the AD curve.

(**Note**: For part (ii) you do not have to separately derive the LM curve.)

Question 2:

Suppose that government spending today increases temporarily in the sticky wage model. Determine the effects on today's real output, real interest rate, consumption, investment, employment, the price level, and the real wage.

Question 3:

Suppose that total factor productivity today (z_1) decreases in the sticky wage model. Determine the effects on today's real output, real interest rate, consumption, investment, employment, the price level, and the real wage.

(Questions 2 and 3 are adapted from your textbook, Williamson: problem 3, p. 483, and problem 1, page 482 respectively.)