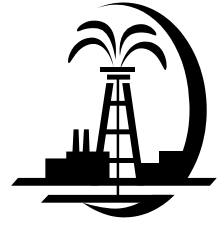
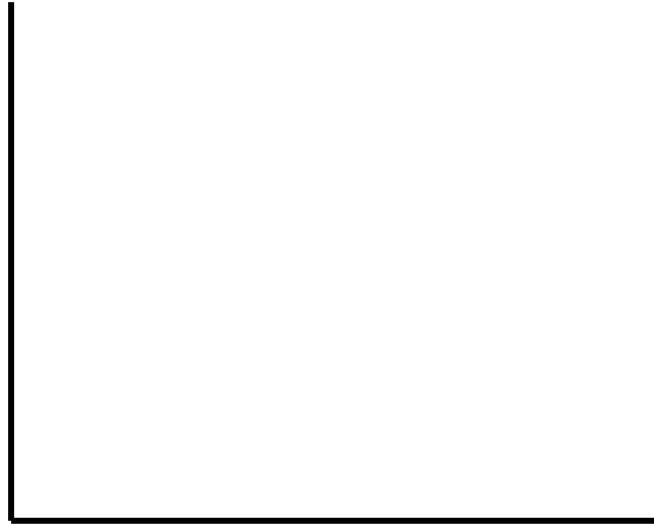


## Macroeconomic Equilibrium

- 1) Draw a diagram below to show the equilibrium output (Real G.D.P.) and price level in an economy using aggregate demand and supply curves.



Price  
Level



Real G.D.P.

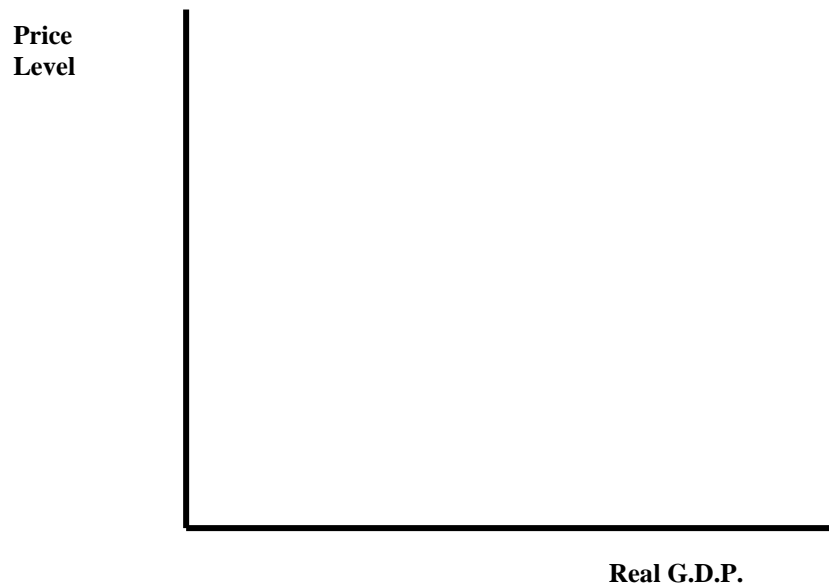
- 2) Illustrate, using the diagrams below, what would happen to the economy if the following occurred.
- a) An **increase** in government spending (that had no impact on the productive capacity of the economy).

Price  
Level

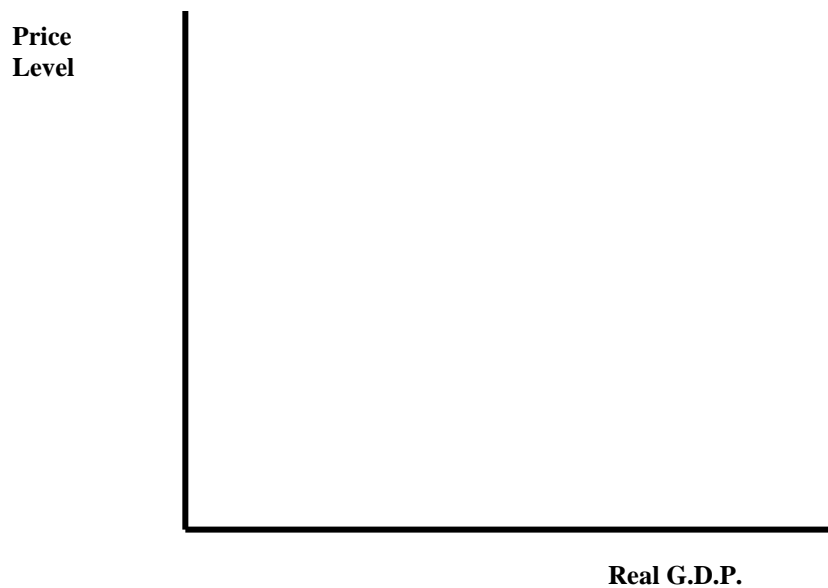


Real G.D.P.

b) A **rise** in the price of oil.



c) An **increase** in the population of the country (leading to a larger labour force).



3) Sometimes governments can pursue policies that can lead to an increase in both aggregate demand and aggregate supply.

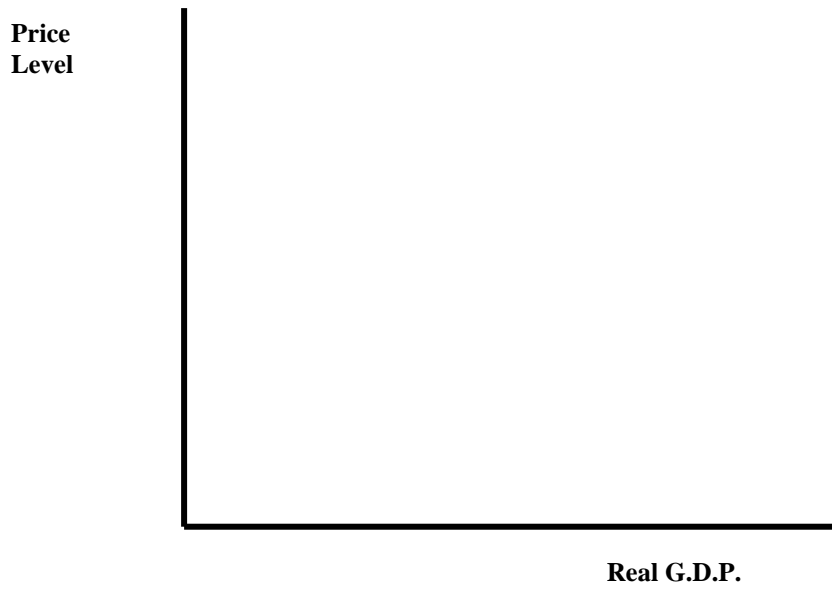
✚ Explain what might happen in the economy if there were to be an increase in government spending on education and training.

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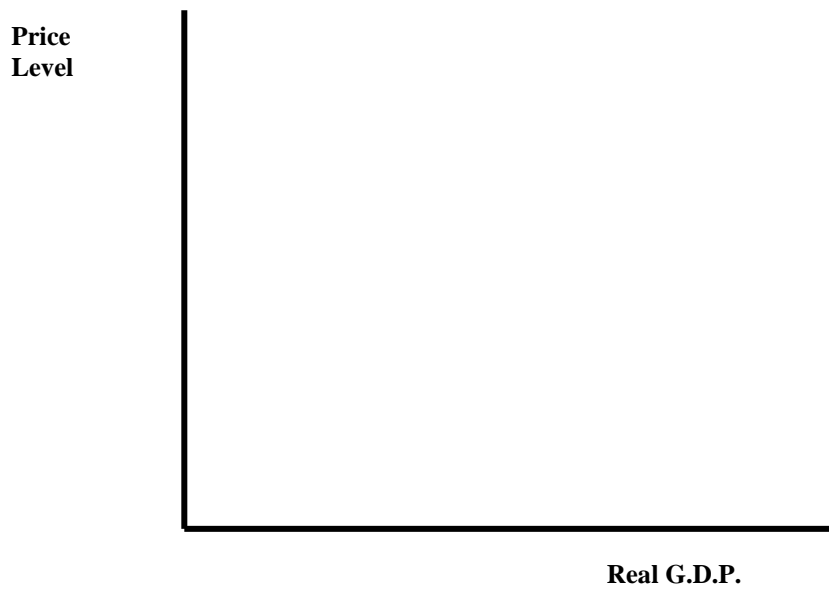
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✚ Can you illustrate the above on the diagram below.



4) Many economists (new-classical) believe that an increase in government spending might not be beneficial for the economy in the long-run.

✚ Can you illustrate this below.



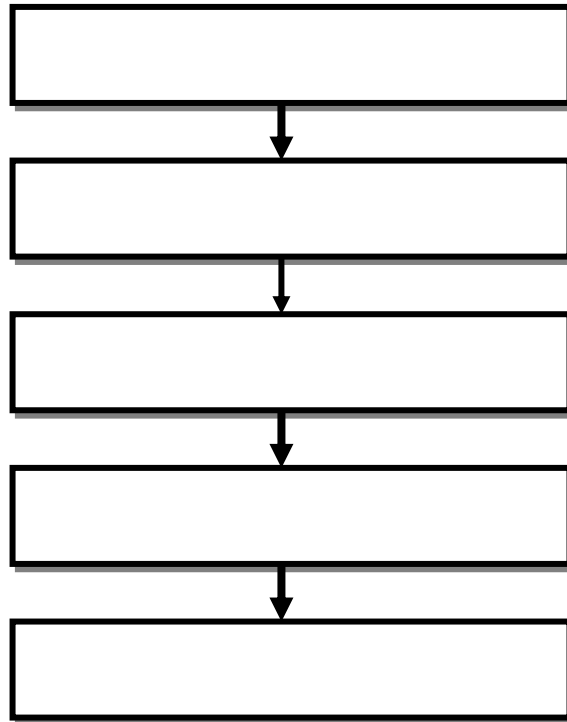
✚ Explain why this is the case.

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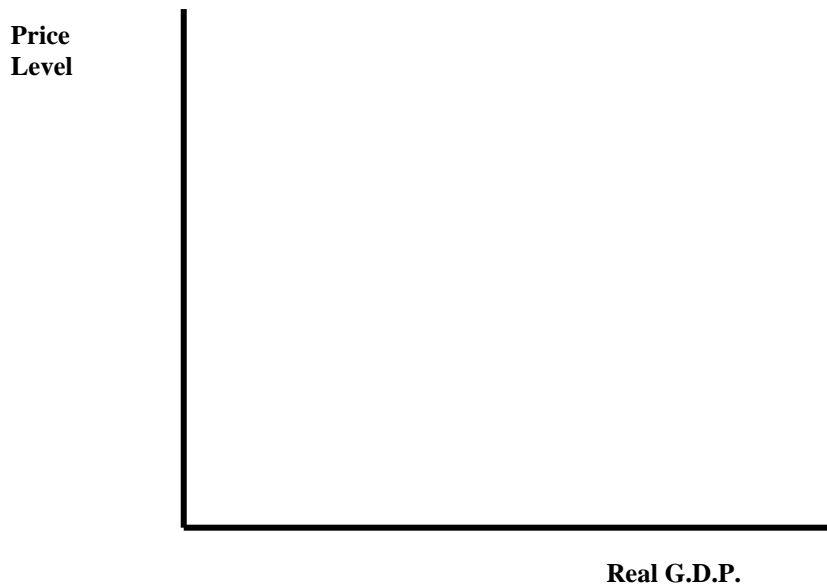
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5) Complete the flow chart below



6) Explain and illustrate how the government can use supply-side policies (training schemes, investment in schools etc.) to increase national income.



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