**Aggregate Demand and Supply Analysis**
ECON 4673
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**Problems**

1. As the labor force becomes more productive over time, how is the long-run aggregate supply curve affected?

2. Why are central banks so concerned with inflation expectations?

3. What factors shift the short-run aggregate supply curve? Do any of these factors shift the long-run aggregate supply curve?

4. If the unemployment rate is above the natural rate of unemployment, holding other factors constant, what will happen to inflation and output?

5. What happens to inflation and output in the short run and the long run when government spending increases?

6. Suppose the President convinces Congress to pass legislation that encourages investment in research and the development. Assuming this policy leads to an increase in productivity, use an aggregate demand and supply graph to predict its effects on output and inflation.

7. During 2014, some Federal Reserve officials discussed the possibility of increasing interest rates as a way of responding to a potential increase in expected inflation. If the public starts to expect higher inflation in the future, what would be its effect on the short-run aggregate supply curve? Use an aggregate demand and supply graph to illustrate your answer.

8. Classify each of the following as an aggregate demand shock or an aggregate supply shock. Use a graph to show the effects on inflation and output in the short run and in the long run.

    a. Financial frictions increase.

    b. Households and firms become more optimistic about the economy.

    c. Favorable weather produces a record crop of wheat and corn in the Midwest.

    d. Auto workers go on strike for four months.