Directions: Answer the Following FRQ Below

3. Assume the economy of Andersonland is in a long-run equilibrium with full employment. In the short run, nominal wages are fixed.

   (a) Draw a correctly labeled graph of short-run aggregate supply, long-run aggregate supply, and aggregate demand. Show each of the following.

      (i) Equilibrium output, labeled Y_1

      (ii) Equilibrium price level, labeled PL_1

   (b) Assume that there is an increase in exports from Andersonland. On your graph in part (a), show the effect of higher exports on the equilibrium in the short run, labeling the new equilibrium output and price level Y_2 and PL_2, respectively.

   (c) Based on your answer in part (b), what is the impact of higher exports on real wages in the short run? Explain.

   (d) As a result of the increase in exports, export-oriented industries in Andersonland increase expenditures on new container ships and equipment.

      (i) What component of aggregate demand will change?

      (ii) What is the impact on the long-run aggregate supply? Explain.

Direction: Read the Following article Below. Then answer the Questions.

Federal Reserve predicts 32% unemployment rate thanks to coronavirus

The St. Louis district of the Federal Reserve is predicting the worst of the economic damage from the coronavirus outbreak will result in a higher unemployment rate than at the worst point in the Depression.

Economists at the Fed's St. Louis district said in a recent analysis that the US will lose 47 million jobs, resulting in an unemployment rate of 32.1%, a considerable increase from the 24.9% unemployment rate during the worst point of the Great Depression.

The projections also go beyond the 30% unemployment rate originally predicted by St. Louis Fed chair James Bullard.

"These are very large numbers by historical standards, but this is a rather unique shock that is unlike any other experienced by the U.S. economy in the last 100 years," St. Louis Fed economist Miguel Faria-e-Castro, who wrote the most recent estimates, remarked on the findings.

On Thursday, the US Department of Labor said a record-shattering 3.3 million people applied for unemployment benefits within a single week.

That number is expected to be even higher than what was reported due to multiple state unemployment agencies being overwhelmed by the number of individuals applying for unemployment and not being able to process them all.

1. Draw and label an appropriate AD-AS graph showing the economy at full employment BEFORE the increased unemployment levels. Include show long run.

2. On the same graph show and explain the impact of increase in unemployment on price level and output.

3. Next identify and explain an appropriate fiscal policy tool to help bring the economy back to full employment.

4. On a separate graph show the state of the economy after high unemployment (include long run) and the result of the policy identified above on PL and Output.