

IB Economics – Aggregate Demand and Aggregate Supply

Exam Practice Questions: 2.7: AD/AS Equilibrium



IB Economics: www.IBDeconomics.com

2.7 AD/AS EQUILIBRIUM: EXAM PRACTICE QUESTIONS

Answer the questions that follow.

1. IB ECONOMICS PAPER 1 EXAMINATION QUESTIONS

1. Analyse the effects of decreasing levels of producer **and** consumer confidence. **[10 marks]**
2. By referring to inflationary **and** deflationary (recessionary) gaps, explain how the equilibrium level of output (real GDP) may be different between the full employment level of output in the monetarist model in the long-run **and** the Keynesian model of AD/AS. **[10 marks]**
3. Explain the short-run **and** long-run impacts of a decrease in interest rates on an economy that is currently producing and consuming at the long-run equilibrium. **[10 marks]**
4. Compare and contrast the monetarist **and** Keynesian models when there is a deflationary (recessionary) gap, assuming no government intervention. **[15 marks]**
5. Distinguish between inflationary and deflationary (recessionary) gaps. **[10 marks]**
6. Compare and contrast equilibrium outcomes using monetarist LRAS and the Keynesian AS curve. **[15 marks]**
7. Explain why the monetarist model states that a deflationary (recessionary) gap will return to the long-run equilibrium. **[10 marks]**
8. Discuss the following viewpoint: "An increase in aggregate demand always results in an increase in the price level". **[15 marks]**

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9. Explain why an economy achieves equilibrium at any level of output in the Keynesian model.
[10 marks]
10. Compare and contrast the Monetarist **and** Keynesian models of the effect increased aggregate demand has on the price level.
[15 marks]
11. Distinguish between long-run equilibrium and short-term fluctuations in output in the monetarist model.
[10 marks]
12. Examine the possible effects that a decrease in interest rates will have on the long-run equilibrium.
[15 marks]

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