

1. You see the following question:

"Suppose the US economy is experiencing high inflation.

- (a) Using a correctly labeled AS/AD graph, show the equilibrium price level and real GDP.
- (b) Which would have more impact in dealing with high inflation, a tax increase or decrease in government spending? Explain.
- (c) Explain how a increase in personal income taxes will affect each of the following in the short run.
 - (i) Consumption
 - (ii) Real GDP and price level
 - (iii) Imports
 - (iv) Exports
- (d) Explain the mechanism by which an decrease in net investment will cause each of the following to change.
 - (i) Aggregate Demand
 - (ii) LRAS"

What would you need in your answer to have a chance of getting this answered correctly? Be sure to specify what each letter and sub-letter answer calls for. (i.e., graph, short statement, justification, quote from Shakespeare, desperate plea for help, life's story, etc.)

2. You see another question with a chart or graph of some kind under the question. After the chart, there are some follow-up questions.

- (a) Do you think your answer will have to refer to the chart? Explain.
- (b) Explain how you would answer each of the following:
 - (i) a question directly related to the graph
 - (ii) a question indirectly related to the graph
- (c) Now the test mentions a detail and asks a follow-up question.
 - (i) Should you draw a new chart to answer the question? Explain.
 - (ii) Will labeling the chart be important? Explain.
 - (iii) Should you just leave the chart, or provide a short explanation of it? Explain.

3. Label everything in the picture below:

