

## Economic Growth and Fluctuations

ECON 3133

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### Answers

1.
  - a.  $P = 1/2, D = S = 4.$
  - b.  $P = 1, D = S = 4.$
  - c. Quantity demanded,  $D$ , increases by 1.
2. Yes, provided the economy grows by 2 or 3% per year. Over a period of 10 years equilibrium output will grow by say 30%. Any bias induced by temporary departures from equilibrium is likely to be small in comparison with the actual growth of potential GDP.
3. If recessions are equilibrium outcomes, then policy intervention to increase spending in the economy will have little benefit. If recessions involve departures from potential output, expansionary policy could raise demand and output back to potential. However, the possibility that an appropriate stimulus could improve performance does not guarantee that activism is superior. It is possible that misuse of policy or mistakes could increase the amount of instability in real GDP rather than reduce it.