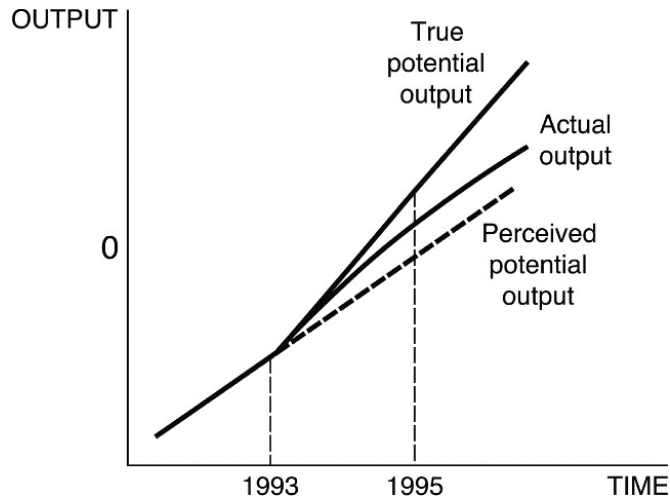


Problem Set #5 – ECON 3311, Spring 2025

Due: 4/30, at 11:59pm (via eLearning)

- 1. Using the graph below, explain how not estimating potential real GDP (output) accurately can lead to implementing the wrong monetary policy.**



- 2. The formula below represents a possible monetary policy rule:**

$$R_t - \bar{r} = \bar{m}(\pi_t - \bar{\pi})$$

Explain what each variable represents and what each side of the equation represents.

3. Graph the aggregate demand curve. Is the statement “A higher value for \bar{m} leads to a smaller decrease in output when inflation increases” true or false? If it is true, explain why. If it is false, explain how it needs to change to be true.

4. The aggregate demand (AD) curve looks a lot like a regular demand curve. However, the reason it slopes down from left to right is different. What is the reason that the AD curve slopes down? Explain.