# Effects of Expansionary Monetary Policy

1. Draw an AD-AS graph showing long-run equilibrium.

1. Draw a money market graph. Show and explain how **expansionary monetary policy** would impact interest rates?

1. Using the graph in part 1, show how the change in interest rates would affect the AD/AS model. Explain.
2. Explain how real GDP and price level would be affected by the change in interest rates in the short-run.
3. Using your graph in part 1, show how SRAS will be impacted the change in interest rates in the long-run? Explain.

# Effects of Expansionary Monetary Policy Answer Key

1. Draw an AD-AS graph showing long-run equilibrium. *(Graph show at each stage, question 1, 3, and 5)*

*Question 1 Graph Question 3 Graph Question 5 Graph*

1. Draw a money market graph. Show and explain how expansionary monetary policy would impact interest rates?

*If the Fed were to conduct expansionary monetary policy, the interest rate would fall.*

1. Using the graph in part 1, show how the change in interest rates would affect the AD/AS model. Explain.

*A lower interest rate would increase investment and interest sensitive consumer spending and shift AD to the right.*

1. Explain how real GDP and price level would be affected by the change in interest rates in the short-run.

*In the short run, real GDP would increase, but so would the aggregate price level.*

1. Using your graph in part 1, show how SRAS will be impacted the change in interest rates in the long-run? Explain.

*Eventually nominal wages would rise in labor markets, shifting SRAS to the left.*