

Econ. 1A. Quiz 8. (sample)

Potential GDP (Y_p) model shows the relationship between full employment (L) and Y_p .

1. Explain carefully under what assumptions we can use $Y = F(L;K,N,E)$ and LD and LS curves to describe the Y_p model. [6]
 - a.
 - b.
 - c.
 - d.
 - e.

2. Suppose the following event occur. Use Potential GDP (Y_p) model to show the effects of this event on w (real wage), L_f (full employment quantity of labor) and Y_p (potential RGDP) graphically. Also state the **cause** and the **effect** explicitly. [6]

“A major hurricane hits Florida.”