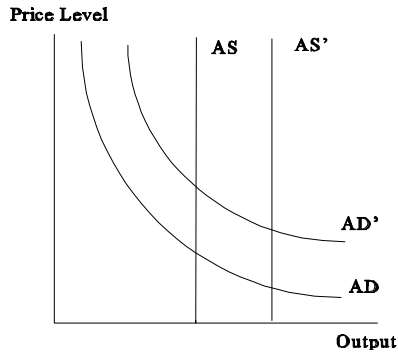


Quiz 2 Answers

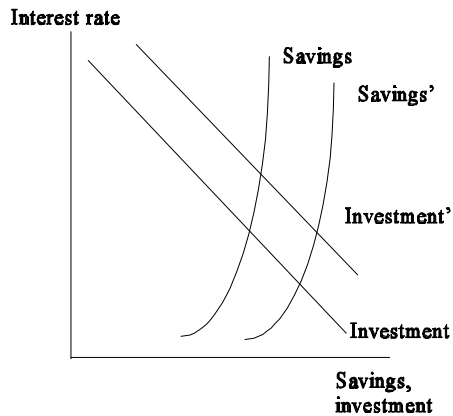
In the diagrams below show the effects of a technological improvement on the macroeconomy.

Product Market



The technological progress shifts the aggregate supply curve right, reducing the price level and raising output. The additional income shifts the aggregate demand curve right, tending to raise the price level. Whether the new price level is above, below or the same as the initial price level is indeterminate.

Capital market



The added income shifts the savings curve and the investment curve to the right. Which shifts more is unknown, so the effect on the real interest rate is uncertain. The level of savings and investment rises.

Labor Market

The technological progress shifts the labor demand curve right, raising the real wage.

