

**N11114 Macroeconomics for Business  
Seminar 3**

Week 10 (w/c 27<sup>th</sup> November 2017)

**Please prepare written answers before attending the seminar.**

1. Households and firms in an economy become pessimistic following a negative random shock. Analyse the short- and long-run effects of the consequent change in aggregate demand on national income, using the AS-AD framework. Consider two scenarios: i) no policy intervention; ii) the central bank decides to increase money supply.
2. Discuss arguments for and against using discretionary policy. In your answer, refer to demand-side policy in the UK and to the general response to the recent financial crisis.