

Quiz 6

Aggregate demand is given by $D(p) = 1/p$ and aggregate supply by $S(p) = p$.

- a) Find the equilibrium price and quantity.
- b) What reasons could be responsible for shifts in aggregate demand and supply - name at least two for each curve.
- c) The government introduces a sales tax. Show graphically how this affects the equilibrium price and quantity and how the welfare of the different groups is affected. What is the net welfare effect? How is it called?