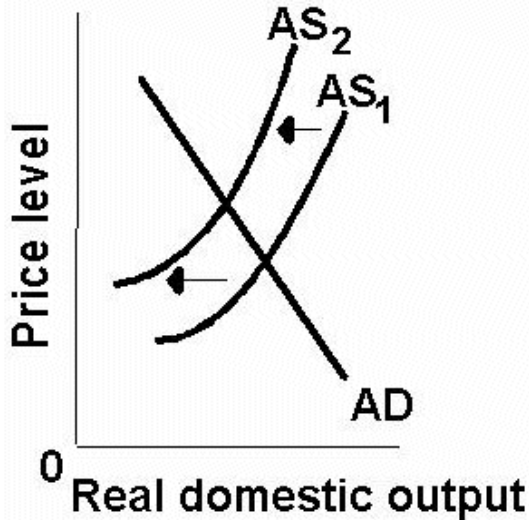


Each of the following event is either a cause or a consequence of a shift in the AD or AS curve in Canada. Identify which it is and, if it is a cause, describe the effect on equilibrium real GDP and the price level. (use a graph of the AD/AS)

a. OPEC's actions significantly increased the world price of oil in 1979-1980

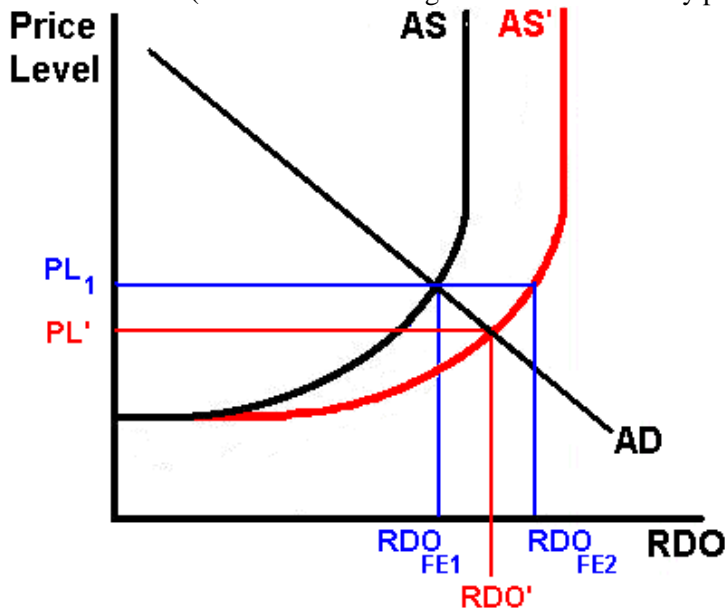


As we can see on the graph, after this event the real domestic product decreased and the price level increased, because the oil was a very important resource in the economy of Canada.

b. During 1996 - 2001, canadian real GDP was growing at a healthy pace but inflation showed no signs of rising.

It was the situation, when there was no rise of inflation and of the price level. So, the real domestic output rose, but without the rise in price level.

c. World commodity prices increased sharply from 2002 to 2008 due to higher world demand. Many of these commodities are both produced in Canada and used as important inputs for canadian firms. (Assume that a change in world commodity prices is exogenous)



As we can see on the graph, the real output increased and the prices decreased, as the internal demand didn't change.