Econ. 1A. Quiz 8. (sample)

Potential GDP (Yp) model shows the relationship between full employment (L) and Yp.
1. Explain carefully under what assumptions we can use \( Y = F(L; K, N, E) \) and LD and LS curves to describe the Yp model. [6]

a. 

b. 

c. 

d. 

e. 

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

“A major hurricane hits Florida.”