

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

- 1) (10 points) Explain why the AD curve slopes down. (The book gives one of the three explanations we gave in 302.) Hint: it is not that we cannot afford to buy what we could buy before.
- 2) (15 points) Give the explanation we gave in class for the shape of the SRAS curve.
- 3) (15 points) Is the AD curve flatter in a closed economy or an open economy with a fixed exchange rate? Explain your logic using economic logic rather than graphical logic.
- 4) (20 points) Illustrate each of the following events on the SRAS/LRAS/AD diagram. Explain why the curve(s) moved as drawn.
  - A) Government spending increases.
  - B) The money supply increases.
- 5) (20 points) Draw the SRAS/LRAS/AD diagram with a high unemployment rate in the initial situation. Illustrate how the economy would move to get back to full employment if the government did nothing. Explain how you knew the unemployment rate was high and why the curve(s) moved as drawn.