

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.

I had mis-spoken. The next exam in 11/03, not 10/27.

1) (20 points each) Draw the following events on the SRAS/LRAS/AD diagram using what the book calls the “modern Keynesian SRAS curve.” Explain why the curve(s) moved as drawn. State what happens to the price level and GDP. Use separate diagrams for each part.

A) The government spends more.

B) A new technology is invented which improves the production of electricity without as much pollution.

C) The price of oil increases.

D) People expect higher inflation.

2) (20 points) Some students think that the reason the AD curve slopes down is that when prices are up, we cannot afford to buy as much. Why is this a false argument?