

Do not put your name anywhere on the assignment, other than on the back of this sheet of paper. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you do double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (25 points each) Illustrate the following events on the LRAS/AD diagram. Explain why the curve(s) moved as drawn. Use separate diagrams for each part.

A) Technology improves.

B) The government gives itself a pay raise.

C) The US\$ gets weaker on the foreign exchange market.

2) (15 points) Why can't we say, "The AD curve slopes downward to the right because an increase in prices means we cannot afford to buy as much. Therefore, less is bought."

3) (10 points) Why does the LRAS curve take its shape?