

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) (10 points) Explain why the Classical SRAS Curve takes its shape.

2) (25 points each) Illustrate the following events on the SRAS/LRAS/AD diagram with the “modern” SRAS Curve. (Always use that SRAS Curve unless I specify otherwise.) Explain why the curve(s) moved as drawn. What happens to GDP and the price level?

A) Firms decide they want to invest more.

B) The technology improves.

C) The wage rate increases.

3) (15 points) I said in class that every time the LRAS Curve moves, the SRAS Curve must move but not vice-versa. What is the logic behind that statement? Explain both halves of the statement.