

Place your name on the back of this sheet of paper and nowhere else. 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 use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (20 points) Explain why the “modern SRAS” curve takes its shape. Make sure you explain why its shape is different on either side of LRAS. Unless I specifically mention otherwise, we will use the “modern” SRAS curve for all questions.
- 2) (20 points) Illustrate an increase in government spending on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to inflation and GDP?
- 3) (20 points) Illustrate an improvement in technology on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to inflation and GDP?
- 4) (20 points) Illustrate an increase in interest rates on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to inflation and GDP?
- 5) (10 points each) What do each of the following mean? Why are they important to the shape of the SRAS curve?
 - A) No money illusion.
 - B) Wages and prices are flexible.