Wilf Csaplar Jr. Economics 350 Homework #2 Due 09/09

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. Turn in the Excel file via Moodle. 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) (30 points) Illustrate an increase in the money supply on the LRAS/SRAS/AD diagram and the IS/LM/FE diagram. Explain why the curves moved as drawn. What happens to GDP, interest rates, and the price level?

2) (30 points) Illustrate an increase in the population on the LRAS/SRAS/AD diagram and the IS/LM/FE diagram. Explain why the curves moved as drawn. What happens to GDP, interest rates, and the price level?

The material for the question below will be covered during the computer lab on 9/9 and you will do it during the computer lab.

3) Suppose consumption is \$100 more than 90% of the average of this year's income and the previous two years' income. Investment is 20% of this year's GDP. Government spending is \$300. Exports are \$500. Imports are 10% of this year's GDP. There are no taxes.
A) (5 points) Write the equations I described above.
B) (15 points) Find the current level of GDP as a function of government spending and lagged variable(s). Show all work.
C) (10 points) Use Excel to fill in a table which will simulate GDP over a 50-year period and assuming that the previous GDP was \$5,000.
D) (10 points) Have Excel plot GDP over time. What type of pattern is that?