

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up 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) Illustrate an increase in the price of oil on the LRAS/SRAS/AD diagram. Explain why it moves as drawn. What happens to the price level, real GDP, and the unemployment rate?
- 2) (20 points) Illustrate an increase in the expected future price level on the LRAS/SRAS/AD diagram. Explain why it moves as drawn. What happens to the price level, real GDP, and the unemployment rate?
- 3) (15 points) Explain why the “modern” SRAS curve takes its shape. Make sure you draw it.
- 4) (20 points) Illustrate an increase in the amount of capital on the LRAS/SRAS/AD diagram. Explain why it moves as drawn. What happens to the price level, real GDP, and the unemployment rate?
- 5) (15 points) Explain why a movement of the LRAS curve causes a movement of the SRAS curve but the SRAS curve can move without the LRAS curve moving.
- 6) (10 points) Which SRAS curve looks like the LRAS curve? Explain why they look alike.