

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.

Note that the SRAS curve from now on does not look like what you drew for the previous homework assignment.

- 1) (10 points) Draw the Classical School's SRAS curve. Explain why it takes that shape.
- 2) (15 points) Draw the "Modern" SRAS curve. Explain why it takes its shape.
- 3 (25 points) Draw the SRAS/LRAS/AD diagram with the economy to the right of Y_{FE} . Illustrate what will occur if nothing is done by the government. Show how the economy changes by itself to get back to full employment. Explain why the curve(s) moved as drawn.
- 4) (25 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of a new technology. Explain why the curve(s) moved as drawn.
- 5) (25 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of people thinking there will be higher inflation. Explain why the curve(s) moved as drawn.