

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.

Unless I specify otherwise, when I say SRAS, I mean the “Modern SRAS.”

- 1) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in government spending. Explain why the curve(s) moved as drawn. Show on the graph the original and the new price levels and GDP. State what happens to them.
- 2) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in the amount of capital. Explain why the curve(s) moved as drawn. Show on the graph the original and the new price levels and GDP. State what happens to them.
- 3) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in interest rate. Explain why the curve(s) moved as drawn. Show on the graph the original and the new price levels and GDP. State what happens to them.
- 4) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in the price of oil. Explain why the curve(s) moved as drawn. Show on the graph the original and the new price levels and GDP. State what happens to them.
- 5) (10 points) Draw the classical SRAS curve. Explain why it takes its shape.
- 6) (10 points) What does “no money illusion” mean? Give an example in your answer.