

The Last One!

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 10 points. 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) (10 points) Explain $r = f(Y)$ for the equation for the LM Curve.
- 2) (30 points) Draw the real MS/MD diagram and the IS/LM/FE diagram. Illustrate the effects of an increase in government spending. Explain why the curves moved as drawn. What happens to the real money supply, real interest rate, and real GDP?
- 3) (30 points) Draw the real MS/MD diagram and the IS/LM/FE diagram. Illustrate the effects of the Federal Reserve buying bonds on the open market. Explain why the curves moved as drawn. What happens to the real money supply, real interest rate, and real GDP?
- 4) (15 points) Draw the IS/LM/FE diagram. Illustrate the effects of a decrease in the price of capital. Explain why the curve(s) moved as drawn. What happens to the real interest rate, and real GDP?
- 5) (15 points) Draw the real MS/MD diagram. Illustrate the effects of a decrease in the required reserve ratio. Explain why the curve(s) moved as drawn. What happens to the real interest rate, and real money supply?