

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) (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. What happens to the price level and GDP?

2) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of a decrease in interest rates. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?

3) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of a decrease in the wage rate. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?

4) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in population. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?

5) (10 points) Explain why the SRAS curve which we used in the previous questions looks as drawn.

6) (10 points) Explain why the AD curve slopes down.