

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

This assignment is due Monday 3/31 because I will be away at a conference in St. Louis on Friday 3/28, which will cause me to miss class that day.

1A) (15 points) In *microeconomics*, we say, “when prices increase, people cannot afford to buy the same amount of the good; therefore, the quantity demanded drops. Why doesn’t that logic hold for the aggregate demand curve in *macroeconomics*?”

1B) (15 points) What is the reason that the AD curve slopes down?

2) (25 points) Illustrate on the LRAS/AD diagram an increase in the amount of capital. Explain why the curve(s) moved as drawn.

3) (25 points) Illustrate on the LRAS/AD diagram an increase in government spending. Explain why the curve(s) moved as drawn.

4) (20 points) State Say’s Law and explain how it relates to the AS/AD diagram.