

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.

- 1) (25 points) Illustrate an increase in government spending on the SRAS/LRAS/AD diagram. Explain why the curve(s) moved as drawn. Disregard the movements towards the long-run equilibrium.
- 2) (25 points) Draw the SRAS/LRAS/AD diagram with $Y > Y_{FE}$. Illustrate what will happen in the long-run if the government does nothing. Explain why the curve(s) moved as drawn.
- 3) (25 points each) Illustrate the events on the 45° diagram, a.k.a. Keynesian cross diagram, for the USA. Explain why the curve(s) moved as drawn. Use separate diagrams for parts A and B.
 - A) The marginal propensity to consume increases.
 - B) The Canadian GDP increases.