

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. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

1) (30 points) Use a LRAS/AD diagram to explain the two different causes of inflation in the long run. Give a real-world example of both causes.

2) (15 points) Draw the Classical SRAS Curve. Explain why it takes that shape.

3) (15 points) Draw the Keynesian SRAS Curve. Explain why it takes that shape.

4) (20 points each) Illustrate the following events on the LRAS/AD/SRAS diagram with the “Modern SRAS Curve.” Explain why the curve(s) moved as drawn. State what happens to the price level and to GDP.

A) There is an improvement in technology.

B) The government spends more.