

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) (15 points) The SRAS curve in this chapter is not same as we drew in *Economics 162*. Draw the SRAS curve and explain why it takes its shape.

2) (15 points) Draw the LRAS curve and explain why it takes this shape.

3) (25 points each) Illustrate the following events on the SRAS/LRAS/AD diagram. Explain why the curve(s) moved as drawn.

A) Government spending increases.

B) There is major flooding throughout the country. (Not just in Bethany.)

4) (20 points) In *Economics 162*, we said that both demand shocks and supply shocks can cause inflation. In the diagram we draw in this chapter, only one of them can cause inflation. Which shock will not cause inflation? Why won't it cause inflation?