

Write your name on the cover of the test booklet and nowhere else. Failure to follow these directions will cost you 1 point. The test has 150 points (to be scaled up to 210 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes. I cannot give extra time because there are classes after yours.

1) (10 points) For ONE of the terms below, define the term and explain why it is important to discussing business cycles.

- A) recurrent but not periodic
- B) aggregate economic activity

2) (12 points) Answer EITHER Part A OR Part B.

A) In this case, you will give two explanations for the same curve. When written in different forms, there are different explanations. Explain $r = \alpha_E - \beta_E Y$. Only explain Y. Also explain it as

$Y = \alpha_{ES} - \beta_{ES} r$. Explain only r.

B) Explain $r = \alpha_{LM} - \left(\frac{1}{l_r} \right) \left(\frac{M}{P} \right) + \beta_{LM} Y$. Only explain M, P, and Y.

3) (14 points) For EITHER the curve in Part A OR the curve in Part B, draw that curve. Explain why it takes the shape.

- A) Real money demand.
- B) Long-run aggregate supply.

4) (16 points) Answer EITHER Part A OR Part B.

A) Illustrate an increase in GDP on the real money supply/demand diagram. Explain why the curve(s) moved as drawn.

B) Draw the LRAS/SRAS/AD diagram with an unemployment rate that is too high. Illustrate how the curves will move if the economy is left alone. Explain why the curve(s) moved as drawn.

5) (16 points) For EITHER the variable in Part A OR the variable in Part B, explain the economic theory as to whether it is pro-cyclical, counter-cyclical, or a-cyclical. Explain the economic theory as to whether it is leading, coincident, or lagging.

- A) Inflation
- B) Unemployment

6) (28 points) Answer EITHER Part A OR Part B.

A) Use the real money supply/demand diagram and the SRAS/LRAS/AD diagram to prove that the only variable affected in the long-run by a money supply increase is the price level.

B) Use the IS/LM/FE diagram to derive the AD curve.

7) (54 points) Illustrate EITHER the event in Part A OR the event in Part B on the IS/LM/FE diagram, SRAS/LRAS/AD diagram, and the real money supply/demand diagram. Use the SAME event in all THREE graphs. Explain why the curve(s) moved as drawn. Only worry about the short-run events. You can draw the SRAS curve with a slight upward slope.

- A) The national savings rate decreases.
- B) The cost of oil increases.