

## The Last One!

Do not put your name anywhere on the assignment, other than on the back of this sheet of paper. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you do double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (15 points) Explain  $r = \alpha_{LM} - \left(\frac{1}{\ell_Y}\right)\left(\frac{M}{P}\right) + \beta_{LM}Y$  . Only worry about the variab

Y because everything else is a parameter.

2) (20 points each) Illustrate the following events on separate IS/LM/FE diagrams. Explain why the curve(s) moved as drawn. If the IS curve moves, you can use either the explanation in the book or our explanation as to why the curve moves. What happens to the GDP and the interest rates?

- A) The Federal Reserve buys bonds.
- B) The marginal propensity to consume increases.
- C) Technology improves.

3) (25 points) Draw an IS/LM/FE diagram for an economy in a recession. Explain how you know that it is in a recession. Show how the economy will correct itself if left alone. Explain why the curve(s) moved as drawn.