Wilfrid W. Csaplar Jr., Ph.D. Economics 302 Exam #4 2007/04/23

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 170 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 10-point question should take 5 minutes. I cannot give extra time because some students have a class after your class.

1) (8 points) Explain EITHER $r = \alpha_{LM} + \beta_{LM}Y$ OR $r = \alpha_{IS} - \beta_{IS}Y$ OR $Y = \alpha_{IS} + \beta_{IS}r$. Do not worry about the α or the β.

2) (12 points) Explain why EITHER the IS curve OR the aggregate demand curve takes its shape. Make sure you draw the curve.

3) (16 points) Answer Part A OR Part B.
A) There are two pairs of curves that are virtually identical curves. What are the two pairs? For both pairs, explain why the two curves are almost identical. You can choose from SRAS, LRAS, AD, IS, LM, FE, real MS, and real MD.
B) Use the real money supply/money demand diagram to show what happens to interest rates when GDP increases. Explain why the curve(s) moved as drawn. Given that graph, are interest rates procyclical, countercyclical, or acyclical? Explain your logic.

4) (20 points) Answer EITHER Part A OR Part B.
A) Use the IS/LM/FE diagram to explain the neutrality of money. Do you believe it holds in the short run? Explain your logic.
B) Derive the AD curve from the IS/LM/FE diagram.

5) (44 points) Answer EITHER Part A OR Part B.
A) Draw the SRAS/LRAS/AD diagram, IS/LM/FE diagram, and the real MS/real MD diagrams. Start with the economy in full employment. Draw an increase in the money supply. Explain why the curve(s) moved as drawn. State what happens to the GDP, price level, real quantity of money and interest rates.
B) Draw the SRAS/LRAS/AD diagram, IS/LM/FE diagram, and the real MS/real MD diagrams. Start with the economy in high unemployment. Draw what happens if the economy is left alone. Explain why the curve(s) moved as drawn. State what happens to the GDP, price level, real quantity of money and interest rates.