

Place your name on the back of this sheet of paper and nowhere else. 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 use double-sided printing or print on the back of scrap paper, I will give you one additional point.

I am sorry to bring you the bad news. There is no equation to explain because Chapter 8 has no equations in it. I am sure you are greatly disappointed.

Also, we will draw the SRAS curve with a slight upward slope.

- 1) (10 points) Why can't we say, "When prices increase we cannot afford to buy as much. Therefore, the AD curve slope down."?
- 2) (10 points each) For each of the variables below, determine if it is pro-cyclical, counter-cyclical, or acyclical. Explain your logic. Is it a leading, lagging, or roughly coincident variable? Explain your logic.
 - A) Stock prices
 - B) Unemployment rate
 - C) Inflation rate
- 3) (20 points each) Illustrate the following events on the SRAS/LRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to prices and GDP? Use separate diagrams for each event.
 - A) The government spends more.
 - B) The price of oil increases.
 - C) The amount of labor increases.