

The Last One!

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.

- 1) (20 points) Explain $M^d/P = \ell_0 + \ell_Y Y - \ell_r(r + \pi^e - i^m)$. You should only explain the variables, not the parameters ℓ .

- 2) (30 points each) Illustrate the following events on the IS/LM/FE diagram and the real MS/real MD diagram. Use a separate diagram for each part. Explain why the curve(s) moved as drawn. What happens to the interest rate and the GDP?
 - A) The money supply increases.
 - B) Government spending increases.

- 3) (20 points) Illustrate an increase in the future marginal productivity of capital on the IS/LM/FE diagram. Explain why the curve(s) moved as drawn. What happens to GDP and interest rates?