

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) (40 points) Draw the IS/LM diagram and the SRAS/LRAS/AD diagram with high unemployment. Assume a closed economy. Draw what would happen if the economy was left alone. Explain why the curve(s) moved as drawn.
- 2) (20 points) Illustrate on the SRAS/LRAS/AD diagram a drought over most of the country. Explain why the curve(s) moved as drawn.
- 3) (20 points) Illustrate on the SRAS/LRAS/AD diagram an increase in the value of the dollar on the foreign exchange market. Explain why the curve(s) moved as drawn.
- 4) (10 points) Do you think speculators are more likely to stabilize or destabilize the exchange rate? Explain why you made that choice.
- 5) (10 points) What is the advantage of a fixed exchange rate over a flexible exchange rate?