

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 $c = f(k) - (n+d)k$. Make sure you explain both of the k , n , and d .
- 2) (25 points) Draw the Solow growth model with desired savings greater than desired steady-state investment. Explain how the economy moves towards the equilibrium. How does this prove the economies of the world will converge to the same output per worker? Why doesn't that happen?
- 3) (20 points) Draw Solow growth model starting at equilibrium. Illustrate an increase in the growth rate of population. Explain why the curve(s) moved as drawn. What happens to GDP per capita and the capital-labor ratio?
- 4) (20 points) Draw Solow growth model starting at equilibrium. Illustrate a decrease in the savings rate. Explain why the curve(s) moved as drawn. What happens to GDP per capita and the capital-labor ratio?
- 5) (5 points each) State how each of these events affect M1 and M2. Briefly explain your logic.
 - A) You transfer \$100 from a savings account to a checking account.
 - B) You withdraw \$50 cash from your savings account.
 - C) You buy your \$500 textbook with a credit card.