

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) (10 points) Explain the equation for the AD curve, $Y = f(P)$.
- 2) (20 points) Illustrate an increase in the interest rate on the SRAS/LRAS/AD diagram. Explain why the curve(s) moved as drawn. What happened to the price level and GDP?
- 3) (20 points) Illustrate an increase in the income tax rate on the SRAS/LRAS/AD diagram. Explain why the curve(s) moved as drawn. What happened to the price level and GDP?
- 4) (20 points) Illustrate an increase in the wage rate on the SRAS/LRAS/AD diagram. Explain why the curve(s) moved as drawn. What happened to the price level and GDP?
- 5) (20 points) Illustrate an increase in the amount of capital on the SRAS/LRAS/AD diagram. Explain why the curve(s) moved as drawn. What happened to the price level and GDP?
- 6) (10 points) Why does the LRAS curve take its shape?