

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up 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.

At the time this assignment is due, we will not have had time to determine the movements of the SRAS curve. However, if we do not include that line, there are strange results. Therefore, the questions below will move either the LRAS or the AD. If the LRAS curve moves, then move the SRAS curve the same direction. You do not need to explain the movements of the SRAS curve. The equilibrium point will be where SRAS and AD cross.

- 1) (10 points) Why does the AD curve slope down? Explain the three reasons.
- 2) (10 points) What is wrong with the following answer to Question #1? “When prices go up, we cannot afford to buy as much. Therefore, the quantity demanded decreases. Also, when prices go up, we will buy less of that good and more of other goods. Thus, we buy less.”
- 3) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in government spending. Explain why the curve(s) moved as drawn. What happens to the level of real GDP and the price level?
- 4) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in interest rates. Explain why the curve(s) moved as drawn. What happens to the level of real GDP and the price level?
- 5) (20 points) Draw the SRAS/LRAS/AD diagram for the USA. Illustrate the effects of an increase in the GDP of Canada. Explain why the curve(s) moved as drawn. What happens to the level of real GDP and the price level?
- 6) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in the population. Explain why the curve(s) moved as drawn. What happens to the level of real GDP and the price level?