

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) (30 points) Draw both the real MS/real MD diagram and the IS/LM/FE diagram. Illustrate the effects of an increase in government spending assuming no Ricardian Equivalence. Explain why the curves moved as drawn. What happens to GDP, interest rates, and the quantity of money?
- 2) (30 points) Draw both the real MS/real MD diagram and the IS/LM/FE diagram. Illustrate the effects of the Fed buying bonds. Explain why the curves moved as drawn. What happens to GDP, interest rates, and the quantity of money?
- 3) (30 points) Draw both the real MS/real MD diagram and the IS/LM/FE diagram. Illustrate the effects of an increase in prices. Explain why the curves moved as drawn. What happens to GDP, interest rates, and the quantity of money?
- 4) (10 points) Explain $r = \alpha_{LM} - (1/\ell_r)(M/P) + \beta_{LM}Y$. Only explain M/P and Y.