

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) (5 points) Explain the equation for AD:  $Y = a - bP$ . Only explain P because a and b are parameters.
- 2) (15 points each) For each of the following variables, determine if it is pro-cyclical, counter-cyclical, or acyclical. Also determine if it is leading, lagging, or roughly coincident. Explain your logic.
  - A) residential fixed investment
  - B) consumption
  - C) duration of unemployment
- 3) (25 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 price level and GDP?
- 4) (25 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in the amount of capital. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?