

The last one!

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.

Because of Good Friday, this assignment covers half of a class on 4/14 and half of a class on 4/21. Given the small amount of material, there is not a good equation to explain other than the M^d/P which you have already been asked about. Therefore, I will disappoint you and not include an “explain equation” question.

1) (30 points) Draw the SRAS/LRAS/AD diagram and real MS/real MD diagram. Illustrate the effects of the Federal Reserve buying more bonds. Explain why the curves moved as drawn. What happens to the real money supply, real interest rates, real GDP, and the price level?

2) (30 points) Draw the SRAS/LRAS/AD diagram and real MS/real MD diagram. Illustrate the effects of the government buying a new fighter plane. Explain why the curves moved as drawn. What happens to the real money supply, real interest rates, real GDP, and the price level?

3) (20 points) Draw the real MS/real MD diagram. Illustrate the effects of an increase in the price level. Explain why the curve(s) moved as drawn. What happens to the real money supply and, real interest rates?

4) (20 points) Draw the real MS/real MD diagram. Illustrate the effects of an increase in the liquidity of non-money assets. Explain why the curve(s) moved as drawn. What happens to the real money supply and, real interest rates?