

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 10 points. 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.

**For this homework assignment only**, draw a upward sloping SRAS curve and move it the same way that the LRAS curve moves. (Starting the day you turn this in, we will know what the SRAS curve really looks like and why it moves. So, after this assignment, SRAS may move without LRAS moving and you would need to tell me the real reason the curve moves.)

- 1) (20 points) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of a decrease in government spending. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?
- 2) (20 points) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of a decrease in interest rates. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?
- 3) (20 points) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of an increase in population. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?
- 4) (20 points) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of a decrease in the income tax rate. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?
- 5) (10 points) Explain why the AD curve slopes down.
- 6) (10 points) Explain why the LRAS curve is vertical.