

The last one!

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.

1) (10 points) Explain the equation for the AD Curve, $Y = a - bP$. Do not worry about the parameters a and b .

2) (35 points) Draw the LRAS/SRAS/AD diagram and the real MS/MD diagram. Illustrate the effects of the Fed's selling bonds on the open market. Explain why the curves moved as drawn. What happens to the price level, real GDP, real quantity of money, and the real interest rate? (If this was the third exam, I might also ask about the IS/LM/FE diagram as well.)

3) (35 points) Draw the LRAS/SRAS/AD diagram and the real MS/MD diagram. Illustrate the effects of a temporary positive supply shock. Explain why the curves moved as drawn. What happens to the price level, real GDP, real quantity of money, and the real interest rate?

4) (20 points) Illustrate an increase in government spending on the LRAS/SRAS/AD diagram assuming Ricardian Equivalence does not hold. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?