

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.

I am sorry to disappoint you, but, there is no equation to explain this assignment.

1) (15 points each) For each of the following, determine whether it is pro-cyclical, counter-cyclical, or acyclical. Explain your logic. Is the variable leading, lagging, or roughly coincident? Explain your logic.

- A) Initial claims for unemployment benefits.
- B) Industrial production.
- C) Nominal interest rates.
- D) Residential fixed investment.

2) (20 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 real GDP?

3) (20 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 real GDP?