

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) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in the price of oil. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?

2) (25 points) Draw the SRAS/LRAS/AD diagram for a country with high unemployment. Explain how you know it has high unemployment. If the government does nothing, how will the economy get back to full employment? Illustrate that on the graph and explain why the curve(s) moved as drawn.

3) (20 points) Draw the SRAS/LRAS/AD diagram. Draw the effects of the US\$ losing value on the foreign exchange market. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?

4) (25 points) Draw the SRAS/LRAS/AD diagram for a country with low unemployment. Explain how you know it has low unemployment. If the government does fiscal policy, what should they do to get the economy get back to full employment? Illustrate that on the graph and explain why the curve(s) moved as drawn.

5) (10 points) What is meant by *cost push inflation*? Explain why it is called that.