

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

- 1) (10 points) Explain the economic reason, not the graphical or mathematical, that the AD curve is flatter for an open economy than with a closed economy.
- 2) (40 points) Draw an LRAS/SRAS/AD diagram and an IS/LM/BP diagram that has high unemployment and a BP line that is flatter than the LM curve. Explain how you know there is high unemployment. Illustrate how the two diagrams move back to equilibrium. Explain why the curves moved as drawn.
- 3) (20 points) Draw the LRAS/SRAS/AD diagram and use it to explain how stagflation could come about. Explain the economic reason(s) for the movement of the curve(s).
- 4) (15 points each) For each of the countries below, state whether you think it is advisable for that country to have a fixed or a flexible exchange rate. Explain your logic. If you choose fixed, state which currency you would fix it to. Note: your answer may not agree with that country's current exchange rate system because their system may not be optimal.
 - A) Turkey
 - B) USA