

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.

1A) (25 points) Draw the Keynesian Cross Diagram, A.K.A. 45° diagram. Illustrate the effects of an increase in government spending. Explain why the curve(s) moved as drawn. **Given your diagram**, what is the estimate of the size of the government spending multiplier? Use the more accurate method and explain how you reached that conclusion. We calculated the multiplier is 10. Why wasn't your answer "10"? (In-other-words, what was wrong with your graph that meant the answer is not 10?)

2) (15 points) When we calculated the government spending multiplier, what did we assume about net exports? If we relax that assumption, what would happen to the size of the multiplier? Explain your logic.

For these questions only, draw a generic upward sloping SRAS curve. If the LRAS curve moves, move the SRAS curve the same direction. **After this assignment**, I will require a specific shape for the SRAS curve which you will learn the day you hand this assignment in.

3) (20 points) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of interest rates going down. Explain why the curve(s) moved as drawn. What happened to GDP, unemployment rate, and inflation? State how you found each change in a variable. <https://www.usbank.com/investing/financial-perspectives/market-news/federal-reserve-interest-rate.html>

4) (20 points) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of Canadians boycotting American goods. Explain why the curve(s) moved as drawn. What happened to GDP, unemployment rate, and inflation? State how you found each change in a variable. <https://www.cnn.com/2025/10/13/business/canada-trump-tariffs-trade>

5) (20 points) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of President Trump deporting 2 million people. Explain why the curve(s) moved as drawn. What happened to GDP, unemployment rate, and inflation? State how you found each change in a variable. <https://www.dhs.gov/news/2025/09/23/new-milestone-over-2-million-illegal-aliens-out-united-states-less-250-days>