

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.

Use the “modern” SRAS curve unless I ask you to draw a different one.

- 1) (25 points each) Illustrate the following events on the SRAS/LRAS/AD diagram for the USA. Explain why the curve(s) moved as drawn.
 - A) The government increases spending. Draw only the short-run results.
 - B) The economy begins with an unemployment rate of 7%. Illustrate its long-term effects upon the economy assuming the government takes no action.
 - C) The dollar appreciates.
- 2) (10 points) Explain why the classical school’s SRAS curve is the same as their LRAS curve.
- 3) (15 points) Why does the AD curve slope downward?