

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 1 point. 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) Illustrate the effects of an increase in government spending on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?
- 2) (20 points) Illustrate the effects of an increase in interest rates on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?
- 3) (20 points) Illustrate the effects of an increase in the price of energy on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?
- 4) (20 points) Illustrate the effects of an improvement in technology on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?
- 5) (10 points) Explain how the economy can produce to the right of the LRAS curve.
- 6) (10 points) Explain why the SRAS curve is flat to the left of the LRAS curve.