

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.

For this assignment, draw the SRAS (short-run aggregate supply) curve as an upward sloping straight line. If the LRAS curve moves, then the SRAS curve moves the same way. The equilibrium is where SRAS and AD cross. (In reality, the SRAS curve does not look like that and can move without the LRAS curve moving. However, you will learn about the SRAS curve after you hand in this assignment and not drawing it gives strange results.)

1) (20 points each) For each of the following events, illustrate the effects of the event on the LRAS/SRAS/AD diagram for the USA. Explain why the curve(s) moved as drawn. What happens to the real GDP and the price level? Answer each part with a separate graph.

- A) The government starts paying the salaries of government workers who were not paid during the government shutdown.
- B) Ford builds a new factory in Weirton, WV.
- C) The Canadian economy improves.
- D) There are more people in the USA.

2) (10 points) What is wrong with this statement: “When prices go up, people cannot afford as much so they buy less. That is why the AD curve slopes down.”?

3) (10 points) Why does the LRAS curve look as we drew it?