

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.

1) (10 points) Explain the equation for AD, $Y = f(P)$.

2) (25 points) All three months in the 4th quarter of last year, the inflation rate went up. The GDP increased that quarter at an annual rate of 7%. At the end of the third quarter, the unemployment rate was 4.7%. Given that data, draw the SRAS/LRAS which shows that information. Make an appropriate movement which would explain the growth rate of GDP and the inflation rate. Explain what you think caused that movement, why the curve(s) moved as drawn, and how it shows inflation and GDP rising.

<https://tradingeconomics.com/united-states/inflation-cpi>

<https://tradingeconomics.com/united-states/gdp-growth>

<https://www.bls.gov/news.release/pdf/empsit.pdf>

3) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in the population. Explain why the curve(s) moved as drawn. What happens to the GDP, inflation rate, and the unemployment rate?

4) (25 points) The current unemployment rate is 3.5%. Draw a LRAS/SRAS/AD diagram which shows that situation. If the government does nothing, what will happen which will bring the economy back to full employment? Explain why that will occur. Illustrate the effects of that on the graph. Explain why the curve(s) moved as drawn. What happens to the GDP, inflation rate, and the unemployment rate?

<https://www.bls.gov/news.release/pdf/empsit.pdf>

5) (20 points) Draw the SRAS/LRAS/AD diagram. The average price of a barrel of oil in 2021 was \$68.17 and this year it has been \$97.35. Illustrate the effects of the change in oil prices on the graph. Explain why the curve(s) moved as drawn. What happens to GDP, inflation rate, and the unemployment rate?

<https://www.macrotrends.net/1369/crude-oil-price-history-chart>