

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 16-point question should take 8 minutes. I will give a few extra minutes, but probably no later than about 5 minutes, i.e., until the end of the hour.

1) (12 points) For EITHER the AD curve OR the Keynesian SRAS curve, explain why that curve takes that shape.

2) (12 points) Do EITHER part A OR part B.

A) Give an example of an event that moves the SRAS curve but not the LRAS curve. Explain why it has this effect.

B) Given an example of an event that moves the 45° diagram, a.k.a. Keynesian cross diagram, but does not move the AD curve. Explain why it has that effect.

3) (16 points) Do EITHER part A OR part B.

A) Explain the multiplier process. Why is the change in GDP larger than the change in government spending?

B) Does consumption depend more upon income or wealth? Explain your logic.

4) (20 points) Illustrate EITHER a recessionary gap OR an inflationary gap on the SRAS/LRAS/AD diagram. Illustrate how the economy would correct itself without government intervention. Explain why the curve(s) moved as drawn and how you can tell which type of gap is shown.

5) (40 points) Illustrate on BOTH the LRAS/SRAS/AD diagram AND the Keynesian cross diagram, a.k.a. 45° diagram EITHER the event in part A OR the event in part B. Show the same event on both diagrams and explain why the curves moved as drawn.

A) An earthquake destroys a large number of buildings.

B) Oil prices increase.