

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.