

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

One note, figure 3-3 on page 87 and figure 3-7 on page 93 are the same diagram with the axes reversed. Draw it like the latter since that is how we will be drawing it for the rest of the semester.

- 1) (10 points) There are two errors on figure 3-9 on page 96. What are they? (Do not count the reversed axes in frame D as wrong.) How do you know they are errors?
- 2) (70 points) Illustrate an increase in the amount of capital on the following diagrams and explain why the curves moved as drawn. Also, for graphs like the production function, explain how you determined where on the curve we end at. Use the production function, labor supply/demand, aggregate supply/demand (not what is shown in figure 3-4 or 3-9), the nominal wage/price, and the savings/investment diagrams.
- 3) (20 points) Explain why the aggregate demand curve takes the shape it does.