

The last one!

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. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

The senior who is taking comprehensives, will take Exam #4 on Friday, 4/15, at a time to be arranged. The material for the test will be Chapters 8 and 9. I will have the review sheet ready some time next week.

1) (15 points) Explain $r = \alpha_{LM} - \left(\frac{1}{l_r}\right)\left(\frac{M}{P}\right) + \beta_{LM}Y$. Only explain M, P, and Y.

2A) (45 points) Draw the LRAS/SRAS/AD diagram, the real money supply/demand diagram, and the IS/LM/FE diagram with both curves in the long-run equilibrium. Illustrate an increase in government spending in the short-run. Explain why the curve(s) moved as drawn. State what happens to the price level, interest rates and GDP.

2B) (40 points) On the same diagrams, illustrate what will happen in the long-run to bring the economy back to equilibrium. Explain why the curve(s) moved as drawn. State the long-run effects on the price level, interest rates, and GDP.