

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.

1) (20 points each) Illustrate the following events on the LRAS/AD diagram. Explain why the curve(s) moved as drawn. What happened to the price level and the real GDP?

- A) The government spends more. (Does it ever spend less?)
- B) A new technology improves the production capability.
- C) Interest rates decrease.

2) (15 points) Draw the Classical SRAS Curve. Explain why it takes that shape.

3) (15 points) Why should  $S = I$ ?

4) (10 points) Why is the Keynesian SRAS Curve horizontal?