

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.

In this course, we will draw the SRAS curve with a slight upwards slope, not the horizontal line the book draws it as.

- 1) (10 points) Explain the equation for the aggregate demand curve $Y = f(P)$.
- 2) (35 points) Draw a SRAS/LRAS/AD diagram. Illustrate a negative (adverse) **demand** shock. Explain why the curve(s) moved as drawn. If the economy is left alone, then how will the curve(s) move as drawn over time? Why do they move like that? How can this explain the business cycle?
- 3) (35 points) Draw a SRAS/LRAS/AD diagram. Illustrate a negative (adverse) **supply** shock. Explain why the curve(s) moved as drawn. If the economy is left alone, then how will the curve(s) move as drawn over time? Why do they move like that? How can this explain the business cycle?
- 4) (10 points) The major economies tend to be in the same part of the business cycle at the same time. What might be the economic cause of this?
- 5) (10 points) Why is the LRAS curve vertical?