

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.

1) (20 points each) Illustrate the following events on the IS/LM/FE diagram. Explain why the curve(s) moved as drawn. What happens to the interest rate and GDP? Why? Show only the short-run effects. (When studying for the test, remember, I might ask for you to show the same event on this diagram and both of the LRAS/SRAS/AD and MS/MD diagrams.)

- A) The government spends more.
- B) There is an improvement in technology.
- C) The money supply increases.

2) (20 points) Illustrate an increase in GDP on the MD/MS diagram. Explain why the curve(s) moved as drawn. What happens to interest rates and the quantity of money?

3) (20 points) Explain why the IS and LM curves take their shape. For the IS curve, you can either give the explanation using the S/I diagram or the one I gave in class. Mathematically they are the same even though they may not seem it. It may also seem that I left off the explain an equation from this assignment, but this question is basically that.