

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (20 points) Draw the LRAS/AD diagram. Illustrate the effects of an increase in government spending. Explain why the curve(s) moved as drawn. What happens to GDP and the price level? Note that the end results are different from what you might expect. You will get later on in the semester when we add the SRAS curve.

2) (20 points) Draw the LRAS/AD diagram. Illustrate the effects of an increase in population. Explain why the curve(s) moved as drawn. What happens to GDP and the price level?

3) (20 points) Draw the LRAS/AD diagram. Illustrate the effects of an increase in exports. Explain why the curve(s) moved as drawn. What happens to GDP and the price level? Note that the end results are different from what you might expect. You will get later on in the semester when we add the SRAS curve.

4) (10 points) Why is it wrong to say, "The AD curve slopes down because when prices go up, we cannot afford to buy as much, so the amount demanded goes down."?

5) (15 points) Why does the AD curve slope down?

6) (15 points) What is Say's Law? What does it mean about the shape of the SRAS curve?