

Place your name on the back of this sheet of paper and nowhere else. Staple your answers 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/SRAS/AD diagram. Illustrate the effects of an increase in the interest rates on the diagram. Explain why the curve(s) moved as drawn. What happens to GDP, price level, and unemployment rate?
- 2) (20 points) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of an increase in the price of oil on the diagram. Explain why the curve(s) moved as drawn. What happens to GDP, price level, and unemployment rate?
- 3) (20 points) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of an increase in the population on the diagram. Explain why the curve(s) moved as drawn. What happens to GDP, price level, and unemployment rate?
- 4) (10 points each) For each of the variables, determine whether it is procyclical, countercyclical, or acyclical. Explain your logic. Is the variable leading, lagging, or roughly coincident? Explain your logic.
 - A) Residential fixed investment
 - B) Inflation
 - C) Unemployment. (I know the book says the answer to the second half of the question is “unclassified.” but tell me what you think it should be if it was classified.)
- 5) (10 points) Why might the data which shows the business cycles as less severe be biased? Explain your logic.