

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.

I am sorry to disappoint you, but this is the last homework assignment and there is no equation to explain. I am sure both of those facts are very disappointing to you.

- 1) (15 points) Even though some economists feel the evidence is weak that the economy has been more stable post-World War II, I feel economic theory says it should be more stable. Why?
- 2) (15 points) What does “recurrent but not periodic” mean?
- 3) (10 points each) For each of the following, determine if it is pro-cyclical, counter-cyclical, or acyclical. Explain your logic. Are they leading, lagging, or roughly coincident? Explain your logic.
 - A) Residential fixed investment
 - B) Consumption
 - C) Stock prices.
- 4) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in interest rates. Explain why the curve(s) moved as drawn. What happens to GDP and the price level?
- 5) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in the amount of capital. Explain why the curve(s) moved as drawn. What happens to GDP and the price level?