Wilf Csaplar Jr. Economics 350 Homework #2 **Due Wednesday 1/29**

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 10 points. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Turn in the Excel file via Canvas. Place your name on an otherwise blank page of the Excel file. Failure to type this assignment 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.

All questions except for #3 should be done before class. You will hand all of the answers in together.

1) (30 points) Draw the LRAS/SRAS/AD diagram and the real money supply/demand diagram. Illustrate the effects of an increase in the money supply. Explain why the curves moved as drawn. Illustrate the long term effects which result in the neutrality of money. Explain why the curves moved as drawn. What happens to the real GDP, price level, real money supply, and real interest rates?

2) (25 points) Draw the LRAS/SRAS/AD diagram and the real money supply/demand diagram. Illustrate the effects of an increase in the MPK^f. Explain why the curves moved as drawn. What happens to the real GDP, price level, real money supply, and real interest rates?

3) Suppose the economy is described by $C_t = 100 + .9((Y_t + Y_{t-1} + Y_{t-2})/3 - T_t)$, $T_t = .4Y_t$, $I_t = 0.4(Y_t - Y_{t-1})$, $G = 500$, $NX_t = 300 - .14Y_t$. Use these equations to answer this question.
A) (25 points) Use the system of equations to solve for Y as a function of exogenous variable(s) and parameters.
B) (20 points) Put the equations into an Excel spreadsheet. Use it to find the GDP for the next 30 years if the past two year's GDP were $1000 each. Have Excel plot the GDP over that period. Is that monotonic convergence, monotonic divergence, oscillating convergence, oscillating divergence, or something else? Explain your logic.