

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. Failure to follow these directions will cost you 1 point on the assignment.

1) (25 points) Draw the LRAS curve and the AD curve. Explain why both of them take their shape.

2) (20 points) Illustrate on the LRAS/AD diagram an improvement in technology. Explain why the curve(s) moved as drawn.

3) (20 points) Illustrate on the LRAS/AD diagram an increase in interest rates. Explain why the curve(s) moved as drawn.

4) (20 points) Illustrate on the LRAS/AD diagram a stronger dollar. Explain why the curve(s) moved as drawn.

5) (15 points) Explain why the arguments for a downward sloping demand curve do not apply to the AD curve.