

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) (15 points) Draw the “modern SRAS” line. Explain why it looks as you drew it.
- 2) (25 points) Illustrate on the LRAS/SRAS/AD diagram the events in each part. Draw each part on separate graphs and explain why the curve(s) moved as drawn.
  - A) The government spends more.
  - B) There is an improvement in technology.
- 3) (35 points) Suppose the economy has high unemployment. Draw the SRAS/LRAS/AD diagram that illustrates this situation. Explain how your diagram shows the high unemployment. Illustrate how the economy will move back to equilibrium if the government does nothing. Explain why the line(s) moved as drawn.