Question 1

11 points \((3 + 2 + 2 + 3 + 1)\)

(a) 3 points:
- One point is earned for a correctly labeled AS/AD graph.
- One point is earned for showing a vertical LRAS.
- One point is earned for showing current output and price level below full employment.

(b) 2 points:
- One point is earned for showing a leftward shift of the SRAS curve.
- One point is earned for showing that real output falls and price level rises.

(c) 2 points:
- One point is earned for stating that unemployment increases.
- One point is earned for explaining that the cause is the decrease in real output.
(d) 3 points:
- One point is earned for a correctly labeled graph.
- One point is earned for explaining that the fall in real income will cause the demand for imports to decrease.
- One point is earned for showing that the supply curve for dollars will shift to the left.

(e) 1 point:
- One point is earned for stating that the U.S. dollar will appreciate.
Question 2

8 points \((3 + 3 + 2)\)

(a) 3 points:
- One point is earned for a correctly labeled graph.
- One point is earned for showing a rightward shift of the money demand curve.
- One point is earned for showing that the nominal interest rate is increasing.

(b) 3 points:
- One point is earned for a correctly labeled graph.
- One point is earned for showing a rightward shift of the supply curve for loanable funds.
- One point is earned for showing that the real interest rate is decreasing.

(c) 2 points:
- One point is earned for indicating that the nominal interest rate is 8 percent.
- One point is earned for indicating that the real interest rate is 6 percent.
Question 3

7 points \((1 + 2 + 4)\)

(a) 1 point:
- One point is earned for asserting that the actual rate will be lower than the natural rate of unemployment.

(b) 2 points:
- One point is earned for asserting that there will be no change in the number unemployed.
- One point is earned for explaining that part-time workers are considered employed.

(c) 4 points:
- One point is earned for asserting that the natural rate of unemployment will fall.
- One point is earned for explaining that people have more incentive to look for work as unemployment compensation diminishes.
- One point is earned for a correctly labeled graph.
- One point is earned for showing a leftward shift of the long-run Phillips curve.

![Graph showing a leftward shift of the long-run Phillips curve](image)