Question 1

9 points \((2 + 4 + 3)\)

(a) 2 points:
- One point is earned for the correctly labeled graph with vertical LRAS curve.
- One point is earned for the current equilibrium output, \(Y_C\), and price level, \(P_L\), identified to the left of the LRAS curve.

(b) 4 points:
(i) 2 points:
- One point is earned for stating that aggregate demand increases.
- One point is earned for explaining that the decrease in taxes raises disposable income and increases consumption spending.

(ii) 2 points:
- One point is earned for a correctly labeled graph of the Phillips curve.
- One point is earned for the correct initial and current positions.
(c) 3 points:
- One point is earned for stating that the short-run aggregate supply curve will shift to the right.
- One point is earned for explaining that wages will fall, businesses will hire more workers, and output will rise.
- One point is earned for showing a leftward shift of the short-run Phillips curve.
Question 2

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

(a) 2 points:
- One point is earned for determining the total change in reserves: $50 million.
- One point is earned for calculating the maximum possible change in the money supply: \(10 \times 50 = 500\) million.

(b) 2 points:
- One point is earned for a correctly labeled graph of the money market.
- One point is earned for showing a leftward shift of the money supply curve and an increase in the nominal interest rate.

(c) 1 point:
- One point is earned for concluding that the equilibrium price level will fall.

(d) 2 points:
- One point is earned for concluding that people with a fixed income would be better off.
- One point is earned for explaining that the lower price level raises real income or increases the purchasing power of the fixed income.
Question 3

6 points \((4 + 2)\)

(a) 4 points:
- One point is earned for the correctly labeled graph of the foreign exchange market.
- One point is earned for showing that the supply of Canadian dollars will increase, or the supply curve will shift to the right.
- One point is earned for explaining that Canadian investors will be attracted by the higher real interest rate in India and increase their purchase of Indian financial assets.
- One point is earned for showing that the Canadian dollar depreciates against the Indian rupee.

(b) 2 points:
- One point is earned for a correctly labeled graph of the loanable funds market.
- One point is earned for showing a leftward shift of the supply curve and an increase in the interest rate.