Question 1

10 Points (2 + 2 + 2 + 2 + 2)

(a) 2 points

- One point is earned for drawing a correctly labeled graph showing a downward sloping aggregate demand (AD) curve, an upward sloping short-run aggregate supply (SRAS) curve, the equilibrium output level labeled $Y_1$, and the equilibrium price level labeled $PL_1$.

- One point is earned for drawing a correctly labeled vertical long-run aggregate supply (LRAS) curve with full employment output labeled $Y_f$ to the right of the short-run equilibrium output level, $Y_1$.

(b) 2 points

- One point is earned for explaining that nominal wages, input prices, or expected inflation will decrease, causing the SRAS curve to shift to the right until real GDP reaches full employment at $Y_f$. 
Question 1 (continued)

- One point is earned for showing a rightward shift in the SRAS curve intersecting the AD curve and LRAS curve at $Y_f$.

(c) 2 points

- One point is earned for correctly calculating the minimum change in government spending required to change aggregate demand by the amount of the output gap as an increase of $8 \text{ billion} = \frac{40 \text{ billion}}{5}$.

- One point is earned for correctly calculating the minimum change in taxes required to change aggregate demand by the amount of the output gap as a decrease of $10 \text{ billion} = \frac{40 \text{ billion}}{-4}$.

(d) 2 points

- One point is earned for drawing a correctly labeled graph of the money market.
Question 1 (continued)

• One point is earned for showing a rightward shift in the money supply curve, resulting in a lower nominal interest rate.

(e) 2 points

• One point is earned for drawing a correctly labeled graph of the foreign exchange market for the Canadian dollar.
• One point is earned for showing a leftward shift of the demand curve for Canadian dollars (or a rightward shift of the supply curve of Canadian dollars) and for showing that the Canadian dollar will depreciate against the Mexican peso.
Question 2

5 Points (2 + 1 + 1 + 1)

(a) 2 points

- One point is earned for drawing a correctly labeled graph showing the short-run Phillips curve (SRPC).

(b) 1 point

- One point is earned for stating that the actual inflation rate is less than the expected inflation rate.
Question 2 (continued)

(c) 1 point

- One point is earned for stating that lenders will be better off and for explaining the real value of the loans that will be repaid will be higher than expected OR for explaining the relationship between the nominal and the real interest rates using the Fisher equation.

(d) 1 point

- One point is earned for stating that the natural rate of unemployment will not change in the long run.
Question 3

5 Points (2 + 1 + 2)

(a) 2 points

- One point is earned for drawing a correctly labeled graph of the loanable funds market and identifying the equilibrium real interest rate and quantity of loanable funds.

(b) 1 point

- One point is earned for stating that Econland’s purchases of foreign assets will increase and for explaining that Econland’s investors will seek higher returns in other countries, which increases Econland’s demand for foreign assets.
Question 3 (continued)

(c) 2 points

- One point is earned for stating that Econland’s currency will depreciate.

- One point is earned for stating that Econland’s central bank would buy its currency in the foreign exchange market.