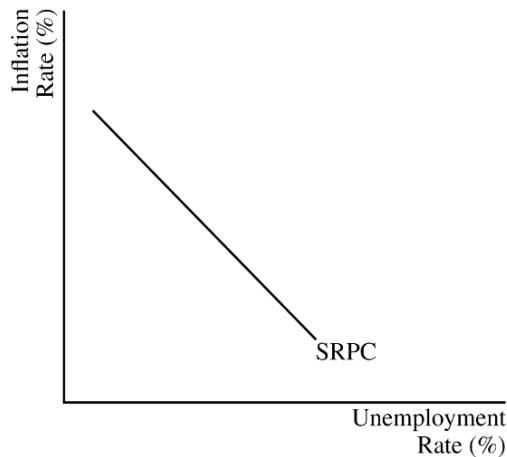
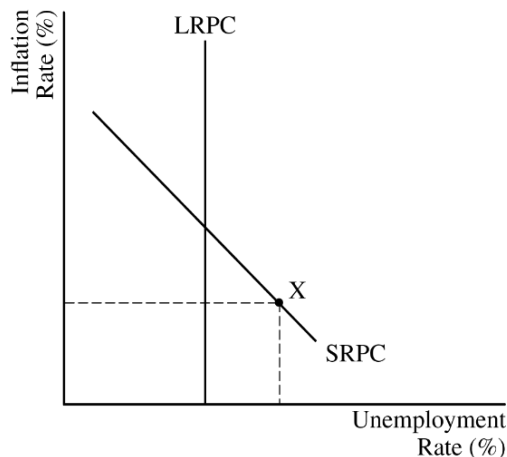


Question 2: Short**5 points**

- (a)**
- Draw a correctly labeled graph of the SRPC.

1 point

For the second point, the graph must include a correctly labeled LRPC and show point X on the SRPC to the right of the LRPC.

1 point**Total for part (a) 2 points**

- (b) (i)**
- Calculate the minimum change in government spending as \$150 billion and show your work.

1 point

$$\frac{\text{Change in GDP}}{\text{Spending Multiplier}} = \frac{\$600 \text{ billion}}{1/(1 - 0.75)} = \frac{\$600 \text{ billion}}{4} = \$150 \text{ billion}$$

- (ii)**
- Calculate the minimum change in taxes as \$200 billion and show your work.

1 point

$$\frac{\text{Change in GDP}}{\text{Tax Multiplier}} = \frac{\$600 \text{ billion}}{-0.75/(1 - 0.75)} = \frac{\$600 \text{ billion}}{-3} = -\$200 \text{ billion}$$

Total for part (b) 2 points

- (c)**
- Explain that SRAS will increase in the long run due to a decrease in nominal wages, input prices, or inflationary expectations.

1 point**Total for question 2 5 points**