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1. Draw the aggregate demand curve (AD_1). Label your axes clearly.

2. Explain why the aggregate demand curve is downward sloping. In other words, why does aggregate output fall when price levels rise? Assume G, T, and M' are constant.

3. Draw the money market and Keynesian-cross graphs to explain your answer in question 2.

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4. The Fed buys government securities (bonds). Show graphically the effects on the aggregate demand curve. Label AD_3.

5. The Fed sells government securities (bonds). Show graphically the effects on the aggregate demand curve. Label AD_4.

6. Congress raises government spending (G). Show graphically the effects on the aggregate demand curve. Label AD_5.

7. Congress lowers government spending (G). Show graphically the effects on the aggregate demand curve. Label AD_6.

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8. Congress raises net taxes (T). Show graphically the effects on the aggregate demand curve. Label AD_7.

9. Draw the aggregate demand curve (AD_1) and aggregate supply curve (AS_1). Label your equilibrium price level (P_1) and aggregate output (Y_1).

10. Explain why an increase in aggregate demand when the economy is operating at low levels of output (e.g. a recession) is likely to result in an increase in output with little or no increase in the overall price level.

11. Explain why an increase aggregate demand when the economy is operating at high levels of output is likely to result in an increase in output with large increases in the overall price level.