

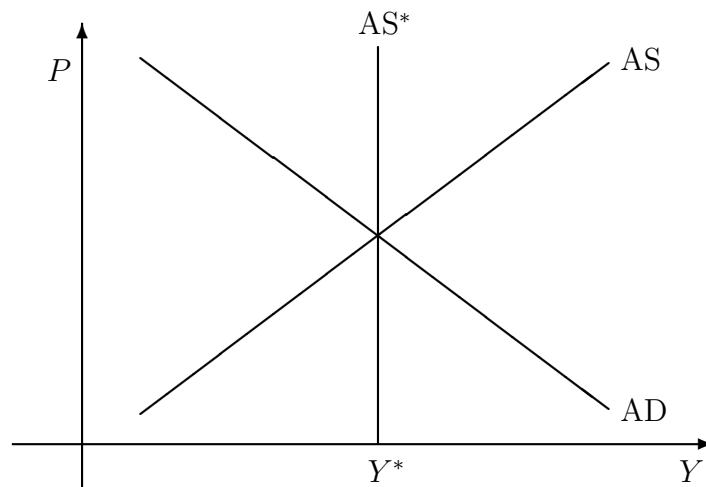
**Practice Final #1**  
Revised: November 12, 2014

*You have 120 minutes to complete this exam. Please answer each question in the space provided and show all of your work. You may consult one page of notes and a calculator, but devices capable of wireless transmission are prohibited.*

*I understand that the honor code applies: I will not lie, cheat, or steal to gain an academic advantage, or tolerate those who do.*

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(Name and Signature)



**Figure 1.** Aggregate supply and demand diagram

1. *Two views of monetary policy (40 points).* The goal is to connect some of the things we've learned about monetary policy, starting with the diagram in Figure 1.
  - (a) If we increase the money supply, what happens to the curves in the diagram? Which ones shift? Why? (5 points)
  - (b) What is the short-run impact on prices and output? The long-run impact? Illustrate both in the diagram. (10 points)