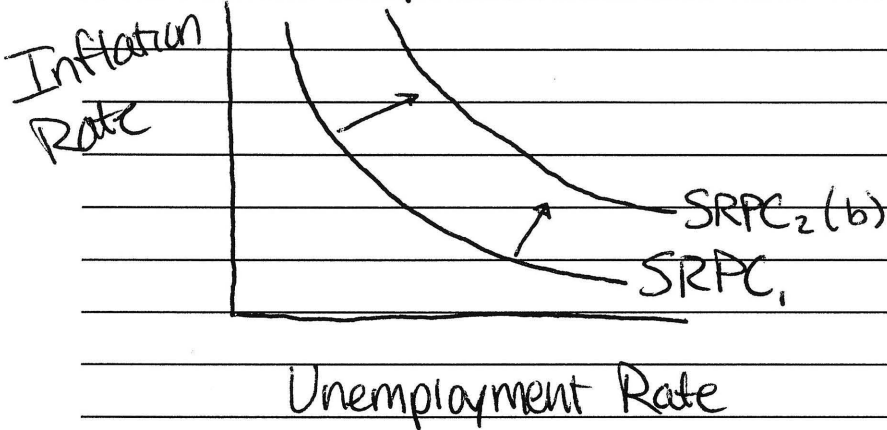


ANSWER PAGE FOR QUESTION 3

a) Phillips Curve



c) There is no effect to the long run Phillips Curve due to the expected increase in inflation.

d) i) Nominal interest rates will increase due to increase of expected inflation.

ii) Real interest rates will not change due to the increase of the expected inflation rate.

e) Nominal = 8%

Inflation = 3%

Real Interest Rate = Nominal Interest Rate - Inflation Rate

Real Interest Rate = 8% - 3%

Real Interest Rate = 5%

GO ON TO THE NEXT PAGE.