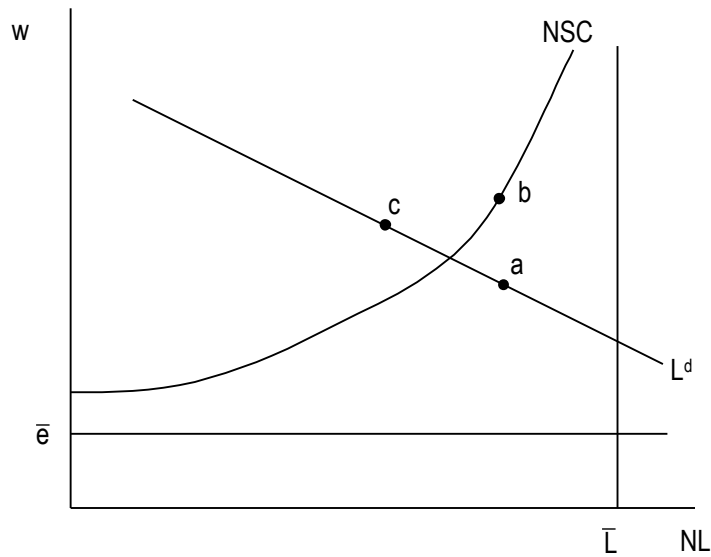


The diagram below shows the equilibrium of the Shapiro-Stiglitz model.



1. Briefly describe what the NSC and L^d curves mean.
2. For points a , b , and c , explain in economic terms why each point is *not* an equilibrium. (Do not just say “it’s not on the NSC curve.”)
3. On the graph, identify the equilibrium levels of employment and unemployment.