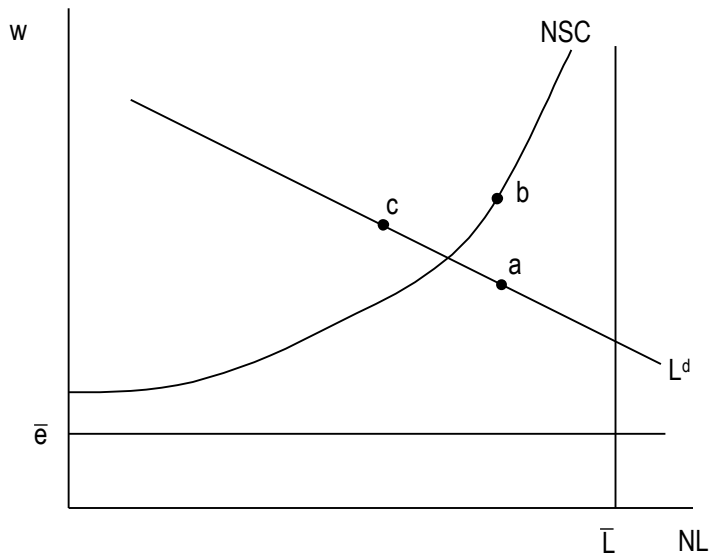


The diagram below shows the equilibrium of the Shapiro-Stiglitz model.



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.