1. (5 points) A commodity boom is when prices of commodities, such as oil, iron and etc., rise in the world market.
   a. Use the AD-AS model to explain the effect of a temporary commodity boom on output and inflation, both in the short run and the long run.
   b. Use the IS curve or the MP curve to explain the effect of a temporary commodity boom on the real interest rate, both in the short run and the long run.
   d. Can the central bank stabilize output in the short run? If yes, how? Explain using the AD-AS model.
   e. How will your answers in Part (c) and Part (d) change if the rise in prices of commodity is permanent?

2. (5 points) Following the financial crisis in 2007-2009, the US sharply reduced its imports from China.
   a. Use the AD-AS model to explain the effect of this event on China’s output and inflation, both in the short run and the long run.
   b. Use the IS curve or the MP curve to explain the effect of this event on China’s real interest rate, both in the short run and the long run.
   e. Can China accomplish the same goal in Part (c) and Part (d) by using fiscal policy instead of monetary policy? If yes, how? Explain using the AD-AS model.