

The last one!

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (25 points) I have argued that the government debt and deficit cause a problem with crowding out. Currently, that is not a problem even though the deficit is 8.8% of GDP (over 3% is too high) and the debt is 93.8% of GDP (over 60% is too high). Explain what crowding out is and why that is bad for the economy. Give evidence that we do not currently have a problem with it. Why don't we have a problem with it now?

2) (10 points each) For each of these arguments about the damage done by the national debt and government deficit, determine how valid the argument is. Explain your logic.

A) Our children will have to pay it.

B) We owe it to foreigners.

3) (25 points) The book argues that the true debt is smaller than what the government claims. However, Paul O'Neill (George W. Bush's first Secretary of the Treasury) says that the true debt is much bigger. Explain both arguments. Which would you agree with? Why?

4) (10 points) Explain how government deficits can cause trade deficits.