

The last one!

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up 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.

Our current government debt as of 2012/11/6 is \$16,214,358,823,745.30 (That number is just over \$16 trillion.) (<http://www.treasurydirect.gov/NP/BPDLogin?application=np>). Since our population is about 314,727,624 (<http://www.census.gov/main/www/popclock.html>) That is about \$51,518.70 per person in the country. NASA says the big bang was 12 to 14 billion years ago. (http://map.gsfc.nasa.gov/universe/uni_age.html) Taking the middle of 13 billion years ago, our debt is more than 14¢ per hour since the big bang. Compare that \$16 trillion to the GDP for 2011 of a hair over \$15 trillion. (<http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>)

1) (15 points) Former Secretary of the Treasury, Paul O'Neill, says that the real debt is closer to \$40,000,000,000,000. What is his argument?

2) (20 points each) For each “problem” with the government deficit and debt, explain the problem. Determine how valid it is. Explain your logic. Answer each part in separate paragraphs.

A) Crowding out

B) It will be very expensive to pay off in the future.

3) (10 points each) For each event, determine what happens to M1 and M2. Explain your logic. Use a separate paragraph for each part.

A) You move \$600 from a savings account to a checking account.

B) You buy a \$300 book using a check.

C) You pay for \$50 coat with a credit card.

4) (15 points) Money is supposed to be liquid. Does M1 or M2 do a better job of meeting that goal? Explain your logic.