

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.

According to the Treasury, as of 10/29, the total government debt is \$17,090,753,527,402.48. (<http://www.treasurydirect.gov/NP/debt/current>) Since our population is about 316,981,816 (<http://www.census.gov/popclock/>) That is about \$53,917.14 per person. 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 almost exactly 15¢ per hour or a penny every four minutes since the big bang. Compare that \$17 trillion to the GDP for 2012 of \$15.6 trillion. (<http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>)

- 1) (20 points each) For each of the following, explain how it can result in expansionary discretionary fiscal policy being less effective. Do you think this is a big problem? Explain your logic.
 - A) Crowding out.
 - B) Ricardian Equivalence.
- 2) (25 points) What are the automatic stabilizers? How do they work? Why are they called that?
- 3) (15 points) Although I feel that the government debt is a major long term problem (thus agree with what this cartoon implies), I feel it has a major problem with it. What is that problem?



(<http://www.gocomics.com/danasummers/2013/10/17/>)

- 4) (20 points) Suppose the government started the year with \$5000 of debt, it paid interest of 10% on it, spent \$600, made \$400 worth of transfers, and collected \$900 worth of taxes. How much is the government deficit or surplus? How much is the new debt. Show all calculations and briefly explain what you did.