

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.

- 1) (15 points) What is *crowding out*? Why does it make using fiscal policy to affect the economy less effective?
- 2) (25 points) What is meant by *direct expenditure offset*? Why does it make fiscal policy less effective at controlling the economy? Give an example where it is not a problem. Explain why it is not a problem.
- 3) (25 points) Draw the Laffer Curve and explain why it takes that shape.
- 4) (15 points) What are *lags* in fiscal policy? Explain why they may mean the government should not do counter-cyclical fiscal policy.
- 5) (20 points) What are the three *automatic stabilizers*? Explain why all three of them are called automatic stabilizers.