Wilf Csaplar Jr.   Economics 162   Homework #8   **Due Friday 11/11**

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 10 points. 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) (20 points) Draw the SRAS/LRAS/AD diagram starting in equilibrium. Illustrate the effects of an increase in the population. Explain why the curve(s) moved as drawn. What happens to real GDP, prices, unemployment rate, and the inflation rate?

2) (20 points) Draw the SRAS/LRAS/AD diagram starting with high unemployment. State how you know the unemployment rate is high. If there is no government intervention, then how will the economy get back to full employment? Explain why that occurs and illustrate the effects on the graph. Explain why the curve(s) moved as drawn. What happens to real GDP, prices, unemployment rate, and the inflation rate?

3) (20 points) Draw the SRAS/LRAS/AD diagram for an inflationary gap. State how you know the economy is in an inflationary gap. What fiscal policy should the government do? Illustrate the effects of that policy on the graph. Explain why the curve(s) moved as drawn. What happens to real GDP, prices, unemployment rate, and the inflation rate?

4) (10 points) When evaluating the effectiveness of counter-cyclical fiscal policy, we said that *crowding out* can make the policy less effective. How does this occur?

5) (15 points) When evaluating the effectiveness of counter-cyclical fiscal policy, we said that *Ricardian Equivalence* can make the policy less effective. How does this occur? Do you believe it? Explain your logic.

6) (15 points) When evaluating the effectiveness of counter-cyclical fiscal policy, we said that *direct expenditure offset* can make the policy less effective. How does this occur? Do you believe it? Explain your logic.