

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 with the economy in a recessionary gap. Illustrate what would happen if the government takes no action. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?
- 2) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of the US\$ getting weaker on the foreign exchange market. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?
- 3) (20 points) Draw the SRAS/LRAS/AD diagram with the economy in an inflationary gap. What fiscal policy should be done? Illustrate what would happen if the government does that policy. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?
- 4) (20 points) Ricardian Equivalence is a reason why counter-cyclical fiscal policy may not work. Explain it. Do you feel it is accurate? Explain your logic.
- 5) (20 points) Lags are a reason why counter-cyclical fiscal policy may not work. Explain what they are and why they may mean that fiscal policy won't work using a graph. Explain your logic.