Wilf Csaplar Jr. Economics 302 Homework #5 Due 03/03

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

1) (30 points) Below is a summary of an article. If you go to this assignment on my web page, you can click on a link to the full article. Using just the information in the summary, illustrate what will happen to the S/I diagram for the USA and the rest of the world. Assume we are a large country with a current account deficit. Explain why the curve(s) moved as drawn. Explain why the interest rates and current account deficit change as drawn.

2) (20 points) Explain $\Delta Y/Y = \Delta A/A + a_K \Delta K/K + a_N \Delta N/N$. Treat each time you have $\Delta X/X$ as one variable rather than two. Also, explain why we use $\Delta X/X$ rather than ΔX.

3) (25 points each) Illustrate each of the following events on the *Per Worker Production Function*. Explain why the curve moved as drawn, or why you moved along it.
A) The technology improves.
B) The population increases.

The Economists' Voice

VOLUME 1 (2004), ISSUE 2, Columns View the Full Article (138 K)
The Budget Outlook: Projections and Implications
William G. Gale, Brookings Institution Peter R. Orszag, Brookings Institution

Under reasonable projections, the unified budget deficits over the next decade will average 3.5 percent of GDP. Compared to a balanced budget, the unified budget deficits will reduce annual national income a decade hence by 1 to 2 percent (or roughly $1,500 to $3,000 per household per year, on average), and raise average long-term interest rates over the next decade by 80 to 120 basis points. Looking out beyond the next decade, the budget outlook grows steadily worse. Over the next 75 years, if the tax cuts are made permanent, this nation's fiscal gap amounts to about 7 percent of GDP. The main drivers of this long-term fiscal gap are, in order, the spending growth associated with Medicare and Medicaid, the revenue losses from the 2001 and 2003 tax cuts, and increases in Social Security costs. The nation has never before experienced such large long-term fiscal imbalances. They will gradually impair economic performance and living standards, and carry with them the risk of a severe fiscal crisis.

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William G. Gale and Peter R. Orszag (2004) "The Budget Outlook: Projections and Implications", The Economists' Voice: Vol. 1: No. 2, Article 6. http://www.bepress.com/ev/vol1/iss2/art6