

The last one!

Do not put your name anywhere on the assignment, other than on the back of this sheet of paper. Staple your answers 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 do double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (15 points) What is wrong with this argument? “The young people today and their children will have to pay the government’s debt. That is why it is bad.”
- 2) (25 points) Explain two problems with the government’s deficit and debt? How do the debt and deficit cause those problems?
- 3) (10 points) When is it good for the government to run a deficit? Why is it good then?
- 4) (30 points) Suppose the deficit is given by the formula  $G - T = 10,000 - 0.2Y$ . Explain why the deficit goes down when GDP increases. If the actual GDP is 40,000 and the full employment level of GDP is 60,000, then how much are the government deficit/surplus and the full employment government deficit/surplus? Show all work and briefly explain what you did. (Ignore the fact that we would probably have an unemployment rate of about 30%.)
- 5) (20 points) In theory, how could we cut the government deficit? Give two methods. Why is that so hard to do?