

Place your name on the back of this sheet of paper and nowhere else. 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 use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (15 points) Many economists feel that Obama's stimulus package will do long-term damage to the US economy. What is the reason they feel this?
- 2) (15 points) If Ricardian Equivalence holds, then will Obama's stimulus package help the economy? If yes, explain how. If no, then explain why not.
- 3) (15 points) Explain what lags in fiscal policy are and why they may cause counter-cyclical fiscal policy to worsen the business cycle.
- 4) (25 points) Draw the Laffer Curve. Explain why it takes that shape.
- 5) (15 points) What are the *automatic stabilizers*? How do they stabilize the economy?
- 6) (15 points) What are *direct expenditure offsets*? Why might they mean that fiscal policy will have little effect upon the economy?