

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) A paper I saw at the conference last weekend looked at aid to Africa. Which do you think they concluded worked better, loans from foreign countries or grants from foreign countries? Explain your logic.
- 2) (30 points) Explain the difference between Duesenberry's relative-income hypothesis and Keynes' absolute-income hypothesis. Which do you think is valid most of the time? Explain your logic.
- 3) (30 points) Keynes' theory reaches a different conclusion about the effects of Obama's stimulus package on savings than the conclusions (about the effects of the stimulus package) reached by the life-cycle model. What are each of the models' conclusions and how do they reach them? Given their predictions on savings, which theory will predict a greater change in the GDP? Which of the models' results do you think is more likely to occur? Explain your logic.
- 4) (10 points) Using the material we discussed in this chapter, what is the effect of the government deficit and debt which Obama is creating, on investment? What will that mean about our future?
- 5) (15 points) Why might an increase in government savings cause no increase in the country's savings? Explain why this might occur by discussing first how the government is increasing its savings and the theory as to why that might not result the country's savings increasing.