

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 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.

The last one!

1) (20 points) Draw the LRAS/SRAS/AD diagram for an economy in an inflationary gap. Explain how you know the economy is in an inflationary gap. Why should the government take action about this situation? What government fiscal policies should be done about this situation? Illustrate the effects of that policy on the diagram. Explain why the curve(s) moved as drawn.

2) (15 points each) Explain in separate paragraphs, what each of the following are and how they could cause fiscal policy to be less effective than we predicted in Chapter 12.

- A) Crowding out.
- B) Ricardian Equivalence
- C) Policy lags

Our current government debt as of 2013/4/10 is \$16,802,515,751,907.610 (That number is just under \$17 trillion.) (<http://www.treasurydirect.gov/NP/BPDLogin?application=np>). Since our population is about 315,649,745 (<http://www.census.gov/main/www/popclock.html>) That is about \$53,231.52 per person in the country. NASA says the big bang was 12 to 14 billion years ago. (http://map.gsfc.nasa.gov/universe/uni_age.html) Taking the middle of 13 billion years ago, our debt is more than 14.7¢ per hour since the big bang. Compare that \$17 trillion to the GDP for 2012 of \$15.6 trillion. (<http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>)

3) (10 points) When former Secretary of the Treasury Paul O'Neill talked here about 7 years ago, he said that the debt reported above (at that time around \$14 trillion) was really over \$40 trillion. How is the \$17 trillion calculated and why did Paul O'Neill say that was too low?

4) (15 points each) For each of the following, explain the logic as to why the government debt is bad. Then determine if this is a strong or weak argument. Explain your logic and use separate paragraphs for each part.

- A) The debt will be a burden on our children and grand children.
- B) We owe money to foreigners.

5) (10 points) The book argues the debt mentioned above is overestimated. Explain their logic.