

The Last One!

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.

- 1) (20 points) What are the three lags in fiscal policy? How could they cause fiscal policy to not work?
- 2) (15 points) What are the *automatic stabilizers*? Why are they called that?
- 3) (15 points) Suppose that at the beginning of the year, the government owed \$1000. During the year, they spent \$500, paid out \$300 in transfer payments, paid \$30 in interest, and collected \$700 in tax revenue. How much was the government deficit or surplus? What was the government debt at the end of the year? Show all work and briefly explain what you did.
- 4) (15 points) When the former Secretary of the Treasury, Paul O'Neill talked at Bethany College, he claimed that the government debt is larger than the official numbers say. How is the current debt measured? What debt does Paul O'Neill say is left out? Why should it be counted?
- 5) (20 points) What are the two general ways of reducing the government deficit? Why are both of them so hard to do?
- 6) (15 points) Some politicians say the debt will be a burden on future generations. What is their argument? Why is that a false argument?