Wilf Csaplar Jr.   Economics 162   Homework #8   **Due Friday 4/17**

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) Draw the SRAS/LRAS/AD diagram for an economy in a recessionary gap. State how you know the economy is in a recessionary gap. If the government were to do discretionary fiscal policy, what should they do? Illustrate the effects of that policy on the graph. Explain why the curve(s) moved as drawn.

2) (20 points) Crowding out is both a short-run problem and a long-run problem. Explain how it occurs, how it is a short-run problem, and why it is a long-run problem.

3) (20 points) What is Ricardian Equivalence and why might it hold? If it is accurate, what does that say about the ability of the government to do countercyclical fiscal policy? Explain your logic.

4) (20 points) What are the three lags in fiscal policy? Explain why they <u>may</u> make countercyclical fiscal policy counterproductive.

5) (20 points) What are the three automatic stabilizers? Explain why they are called automatic and how they stabilize the economy.