

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 10 points. 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 LRAS/SRAS/AD diagram for an economy in a recessionary gap. Explain how you know it is a recessionary gap. Illustrate how the economy would get back to full employment if left alone. Explain why the curve(s) moved as drawn.
- 2) (20 points) Draw the LRAS/SRAS/AD diagram for an economy in an inflationary gap. Explain how you know it is a inflationary gap. Illustrate how the government could use fiscal policy to get back to full employment. Explain why the curve(s) moved as drawn and mention what the government did.
- 3) (15 points) Draw the modern SRAS curve. Explain why it takes its shape.
- 4) (15 points) What is meant by Ricardian Equivalence? Explain why it might make counter-cyclical fiscal policy ineffective.
- 5) (15 points) What is meant by crowding out? Explain why it might make counter-cyclical fiscal policy ineffective.
- 6) (15 points) How do the automatic stabilizers stabilize the economy? Why are they called automatic?