

## 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) (25 points) Draw the SRAS/LRAS/AD diagram with the economy in a recessionary gap. Explain how you know it is a recessionary gap. If the government did nothing, how would the economy get back to full employment? Illustrate the effects of that on the diagram and explain why the curve(s) moved as drawn.
- 2) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of the US\$ getting weaker on the foreign exchange market. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?
- 3) (25 points) Draw the SRAS/LRAS/AD diagram for an economy in an inflationary gap. Explain how you can tell it is in an inflationary gap. What is the best fiscal policy in this situation? Illustrate the effects of that policy on the graph. Explain why the curve(s) moved as drawn. Is the policy you chose the one which President Trump is following? Explain your logic.
- 4) (15 points each) Answer each of these in separate paragraphs. For each of the following, define the term, explain how it could make counter-cyclical fiscal policy less effective. Is that a strong argument? Explain your logic.
  - A) Crowding out
  - B) Direct expenditure offset.