

If you are not in the classroom with me, you must be on Zoom with both your camera and microphone on.

<https://zoom.us/j/2818112563?pwd=Qm9LNHJQSmFLUGgrTlhsczcvWUR5dz09>

Do NOT write your name anywhere. (Canvas will tell me who turned in the exam.) Take pictures of your answers and use your own app or one of the pages I have links to on my home page to create a PDF for each answer which requires an upload. If it is large, resize it to A4 or 8.4" x 11". Upload that to Canvas. Upload each answer as a separate file with that question. Failure to follow directions will cost you one point. People with Apple products may need to use CamScanner app.

You ARE allowed to use your books and notes, but NOT the internet, or other people when taking this test.

You can use the internet to access Canvas and to convert your answers to PDF files. Nothing else.

If you run out of time or lose your internet connection, you can do a second submission. You do NOT have to redo the questions you already did. I will be able to see every submission. If you have problems, you can always contact me via Zoom or e-mail.

Suppose that you had complete control of both fiscal and monetary policy of the USA in the future. The unemployment rate is 8.1%. The inflation rate is 1.5%. The current government has a large sized budget deficit (4.5% of GDP) and a large sized debt (110% of GDP). The nominal interest rate is 5.0%.

Please use separate graphs for each section.

A) (50 points) What is the big problem in the economy described above: the unemployment rate, inflation rate, government budget and debt, or the interest rates? Why do you think that? **Explain why you do not think the others are “the big problem” by mentioning the problem caused and explaining why it is not as bad as your big problem.**

B) (50 points) What fiscal policy would be the best for fighting your big problem? Why would that be the best type of fiscal policy for that problem? Use SRAS/LRAS/AD, MS/MD, and the Keynesian cross (a.k.a. 45° diagram) diagrams to illustrate the effects of the policy you chose. Explain why the curve(s) moved as drawn. What happens to the unemployment rate, inflation rate, government’s budget and debt, and interest rates?

C) (50 points) What type of monetary policy would be best for fighting the big problem? Why would that type of monetary policy be best for fighting the big problem? Use SRAS/LRAS/AD, MS/MD, and the Keynesian cross (a.k.a. 45° diagram) diagrams to illustrate the effects of the policy you chose. Explain why the curve(s) moved as drawn. What happens to the unemployment rate, inflation rate, government’s budget and debt, and interest rates?

D) (50 points) Given your answers above, would you use fiscal policy, monetary policy, or a

combination of the two? Explain your logic. How do the policies you described above affect unemployment, GDP, inflation, interest rates, and the government's budget and debt? Use SRAS/LRAS/AD, MS/MD, and the Keynesian cross (a.k.a. 45° diagram) diagrams to illustrate the effects of your policies. Please redraw the diagrams in this section, but you do NOT need to explain the movements. Explain why your policies affect those variables in that manner. **If you do not use a policy, explain why you chose not to use it.** Remember, in the real world, solving one problem may worsen something else. If that occurs, explain why there is still a net benefit resulting from your policies, and how you may want to slightly change your policies, to improve the situation.