

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

1) (25 points) Illustrate an increase in government spending on the AD/SRAS/LRAS diagram. Explain why the curve(s) moved as drawn.

2) (15 points) A government deficit can cause crowding out. What is that? Why is that a problem?

3) (15 points) What are the automatic stabilizers? Why are they called that?

4A) (20 points) What are the three lags in fiscal policy? Explain what each of them are.

B) (25 points) Draw a diagram which shows GDP over time showing the business cycle. Use it to explain why lags are important for determining if fiscal policy should be done.