

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. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

- 1) (25 points) Draw an SRAS/LRAS/AD diagram for an economy with high unemployment. What fiscal policy would you recommend? Illustrate that on the diagram. Explain why the curve(s) moved as drawn. What happens to GDP and the price level?
- 2) (15 points) Explain *crowding out*. If it occurs, then how would your answer to Question #1 be different? Explain your logic.
- 3) (20 points) What is *Ricardian Equivalence*? Do you believe it will hold? Explain your logic.
- 4) (15 points) What are *direct expenditure offsets*? Why are they important for understanding the *government spending multiplier* in the material just before the exam?
- 5) (15 points) What are automatic stabilizers? Why are they called that?
- 6) (10 points) What is meant by *lags*? Why might they cause some economists to state that fiscal policy should not be used to fix the economy?