

Do NOT write your name anywhere. (Canvas will tell me who turned in the assignment.) All answers must be typed, except for mathematics and graphs. Take pictures of your written answers and use your own software or <https://pdfcandy.com/> to create a single PDF size A4. (pdfcandy.com will convert many file types to PDF, resize PDF, merge PDF and many other things for free. However, Apple phones may require using [CamScanner](#) before using pdfcandy.com.) Failure to follow these directions will cost you 10 points.

1) (30 points) From January of 2018, the unemployment started about 4% and slowly drifted 3.5% in February of 2020. Which type of gap is that? Draw that type of gap on the LRAS/SRAS/AD diagram. What was the best fiscal policy for that situation? Explain your logic. Illustrate the effects of that policy on the graph and explain why the curve(s) moved as drawn. (Of interest, the two parties worked together to increase spending during that time.)

2) (25 points each) Answer each part in separate paragraphs. For each part, explain why that may make counter-cyclical fiscal policy either useless or less effective. Do you feel that the argument is a strong or weak argument? Explain your logic.

A) Ricardian Equivalence

B) Direct expenditure offset.

3) (20 points) What are the automatic stabilizers? Explain how they stabilize the economy and why they are called automatic.