

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.

For this homework assignment, you must draw the “Modern SRAS Curve”.

1) (20 points) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of the cut in government spending that the House Republicans are proposing. Explain why the curve(s) moved as drawn. What happens to GDP, inflation, and unemployment?

2) (20 points) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of a cut in interest rates. Explain why the curve(s) moved as drawn. What happens to GDP, inflation, and unemployment?

3) (20 points) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of an increase in the population rate. Explain why the curve(s) moved as drawn. What happens to GDP, inflation, and unemployment?

4) (20 points) Draw the LRAS/SRAS/AD diagram for an economy in a recessionary gap. How do you know your diagram shows a recessionary gap? If the government takes now action, how will the economy get back to full employment? Illustrate that on the graph and explain why the curve(s) moved as drawn.

5) (10 points) The CARES Act Stimulus Package resulted in people being mailed checks. According to the article below, what did they do with most of that money? Does that agree with Ricardian Equivalence? Explain your logic.

<https://www.nber.org/digest/oct20/most-stimulus-payments-were-saved-or-applied-debt>

6) (10 points) One reason that counter-cyclical fiscal policy might not work is crowding out. Explain how that might prevent the fiscal policy from working as effectively as we would like.