Wilfrid W. Csaplar Jr., Ph.D. Economics 202 Exam #3 2025/10/31

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I can give extra time but not a lot.

1) (14 points) Answer EITHER Part A OR Part B.
A) What is meant by "crowding out of investment"? How does that affect the effectiveness of expansionary fiscal policy? Explain your logic.
B) What is meant by "lags in fiscal policy"? How do they affect the desirability of doing countercyclical fiscal policy? Explain your logic.

2) (14 points) For EITHER the statement in Part A OR the statement in Part B, explain what that means and how that will affect the long-run growth of the economy. Make sure you explain why it will have that impact.
A) Not enforcing intellectual property rights, which is something China does.
B) Limiting protectionism.

3) (14 points) Answer EITHER Part A OR Part B.
A) When we calculated the government spending multiplier, what did we assume about tax revenue? If we relax that assumption, what happens to the size of the multiplier? Explain your logic.
B) Suppose the MPC was 0.5. What would be the size of the government spending multiplier? In that case, if the government wanted to increase GDP by $2 billion, how much would they have to increase government spending? For both parts, show all work and briefly explain what you did.

4) (18 points) Draw the Keynesian Cross, AKA 45°, Diagram. Illustrate the effects of EITHER the event in Part A OR the event in Part B. Explain why the curve(s) moved as drawn. What happens to GDP?
A) The Fed recently decreased interest rates.
B) On 10/30, the IMF said that the outlook for the world GDP remains "dim". Show what will happen to the US economy if the world economies go down.

5) (20 points) Draw the LRAS/SRAS/AD diagram. Illustrate EITHER the event in Part A OR the event in Part B. Explain why the curve(s) moved as drawn. What happens to GDP, inflation, and the unemployment rate?
A) President Trump cut taxes in the "One Big Beautiful Bill".
B) The MPC increases.

6) (20 points) Answer EITHER Part A OR Part B.
A) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of artificial intelligence (AI). Explain why the curve(s) moved as drawn. What happens to GDP, inflation and the unemployment rate?
B) Draw the LRAS/SRAS/AD diagram which shows the unemployment rate at 4%. State how your graph shows that unemployment rate. If the economy is left alone, how will it get back to equilibrium? Explain why the curve(s) moved as drawn.