

Do NOT write your name anywhere. (Canvas will tell me who turned in the assignment.) Take pictures of your answers and use your own software or <https://pdfcandy.com/> to create a single PDF. (pdfcandy.com will convert JPG to PDF, resize PDF, merge PDF and just about anything else you can think of with a PDF for free.) Failure to follow these directions will cost you 10 points.

1) (25 points) Draw the LRAS/SRAS/AD diagram starting in an inflationary gap. State how you know it is an inflationary gap. What is the best fiscal policy? Illustrate the effects that policy on the graph. Explain why the curve(s) moved as drawn. What happened to GDP, inflation, and unemployment rate?

2) (25 points) Draw the LRAS/SRAS/AD diagram starting in a recessionary gap. State how you know it is a recessionary gap. What is the best fiscal policy? Illustrate the effects that policy on the graph. Explain why the curve(s) moved as drawn. What happened to GDP, inflation, and unemployment rate?

3) (15 points) Explain how crowding out makes fiscal policy less effective. Do you think that is a strong argument? Explain your logic.

4) (15 points) Explain how direct expenditure offset makes fiscal policy less effective. Do you think that is a strong argument? Explain your logic.

5) (20 points) What are the automatic stabilizers? Explain how they are automatic and how they stabilize.