

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.

1) (25 points) The book says that investment is not a panacea, but it is still necessary for economic growth. Explain both why it is not a panacea and why it is important for growth.

2) (25 points) Domestic savings is private and public savings combined. Explain how the government deficit/surplus applies to the definition. Given the relationship between savings and investment, what is the likely result of the government deficits run up by the current Bush administration?

3) (15 points) What would the column for 2006 be in Table 11-2? Show all calculations.

4) (10 points) What is the economic reason why a small ICOR value for the new investment would cause faster growth?

5) (25 points) Explain Ricardian Equivalence. Do you think it will hold? Why or why not?