

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 and failure to type it will cost you 10 points.

The Last One!

1) (20 points) Suppose that it is a few years from now. During your four years in school, you borrowed \$10,000 each year. You have been out of school for three years. During those three years, you paid \$3,000 each year towards what you borrowed. Assuming you have never done any other borrowing, that your bank accounts are the same as when you started school, and the interest rate on the loans was 0%, what was your budget deficit or surplus for each year? What was your debt for each year? Show all work. (You should have seven years in your answer.)

2) (10 points) The European Union requires that the countries using the Euro must keep their government debt below 60% of their GDP. Why would they do this?

3) (25 points each) For each of the arguments below, explain what is meant by each statement. Explain a potential problem with each argument. Do you think the argument is valid? Explain your logic.

A) Our children will have to pay the debt.

B) The government debt/deficit is causing the trade deficit.

4) (20 points) Why is it so difficult to balance the budget. Give at least three reasons.