

Do not put your name anywhere on the assignment, other than on the back of this sheet of paper. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. 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 do double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (20 points each) For each of the following, explain how the event would affect the size of the government spending multiplier. Why would they have those effects?

A) Ricardian Equivalence

B) Direct expenditure offsets.

2) (25 points) What is meant by *crowding out*? How does the government's deficit and debt cause it? How would that affect the growth rate of GDP?

3) (25 points) Illustrate a recessionary gap on the LRAS/SRAS/AD diagram. If the government wanted to fix the problem, what fiscal policy should it do? Illustrate that policy on the diagram. Explain why the curve(s) moved as drawn.

4) (10 points) What are the *automatic stabilizers*? Why are they called that?