

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 10 points. 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 use double-sided printing or print on the back of scrap paper, I will give you one additional point.

According to TreasuryDirect.gov, the gross public debt was \$23,004,857,754,547.26 on 2019/11/13. <http://www.treasurydirect.gov/NP/debt/current> According to the Census Bureau's population clock at 12:18 on 2019/11/15, <http://www.census.gov/popclock/>, the population was about 329,993,664 people. That means the debt is \$69,713.03 per person. According to NASA, the solar system is 4,500,000,000 years old, https://solarsystem.nasa.gov/solar-system/our-solar-system/in-depth/#formation_otp. Therefore, if you earned 1 penny for 34 out of every 35 minutes (without earning interest) from the start of the solar system, you would not have enough to pay the debt. According to the Bureau of Economic Analysis, the GDP is \$21.53 trillion. This means the debt-to-GDP ratio is 1.07. Therefore, the government owes 107% of the entire GDP. The GDP data was gotten from <https://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>.

1) (20 points) Explain why crowding out is a long term problem of the debt. Which measure of the debt, gross public debt, net public debt, or Paul O'Neill's debt is most likely to cause crowding out? Explain your logic.

2) (20 points) Some people say, "The debt is bad because paying it off will hurt our grandchildren." Explain that argument. Is that a valid argument? Explain your logic.

3) (10 points each) Answer these in separate paragraphs. For each of the following, explain how it would reduce the deficit and ultimately the debt. Why is it hard to do? Explain your logic.

A) Cut spending

B) Tax rich

4) (5 points) Does M1 or M2 do a better job for medium of exchange? Explain your logic.

5) (5 points) Does M1 or M2 do a better job for store of wealth? Explain your logic.

6) (10 points each) Answer each part in separate paragraphs. For each of the following, determine what happens to M1 and M2. Explain your logic.

A) You move \$100 from a CD to your checking account.

B) You pay for a \$50 item with a check.

C) You pay for a \$60 item with a credit card.