

## The Last One!

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.

1) (30 points) Draw an SRAS/LRAS/AD diagram for a country with 3.8% (our current unemployment rate). State how your graph shows that unemployment rate. If the government does nothing, what will happen to bring us back to full employment? Illustrate the effects of that on the graph. Explain why the curve(s) moved as drawn. What happens to the GDP, inflation, and unemployment rate? If the government were to want to solve the problem, what should the government do? Explain why they should do that, but do not show it on the graph.

<https://www.bls.gov/news.release/pdf/empisit.pdf>

2) (10 points each) Answer each part in separate paragraphs. Fiscal policy may not work as well as we would like or it may be counter-productive. For each part, explain that potential problem with counter-cyclical fiscal policy.

A) Crowding out

B) Lags

3) (10 points) Biden has proposed a tax on unrealized capital gains of the rich. The first article listed below states that most countries who have tried it have scrapped it. What did the article claim was the reason? Explain why that reason for scrapping it makes sense.

<https://reason.com/2022/03/30/joe-manchin-on-bidens-wealth-tax-you-cant-tax-something-thats-not-earned/>

One side point, when the income tax was put in place in 1913, most people did not pay taxes because of standard deductions. Those who did pay paid 1% until a taxable income of \$20,000. That would be worth over \$573,000 now. It was originally just a tax on the rich. Do not fall for the claim that the new tax will stop at the rich. It will eventually come to all taxpayers

<https://thehill.com/opinion/judiciary/600164-bidens-plan-to-tax-the-rich-unlikely-to-stop-with-billionaires> [https://files.taxfoundation.org/legacy/docs/fed\\_individual\\_rate\\_history\\_nominal.pdf](https://files.taxfoundation.org/legacy/docs/fed_individual_rate_history_nominal.pdf)  
<https://www.in2013dollars.com/us/inflation/1913?amount=20000>

4) (10 points) As the paragraph on the next page indicates, the government debt is quite large and quite a problem. Some people say it is a problem because when we pay it off, it will hurt our grandchildren. Explain two problems with that argument.

5) (15 points) One of the problems with the debt is *crowding out*. What is that? Is that most likely to happen with net public debt, gross public debt, or Paul O'Neill's debt? Explain your logic.

6) (15 points) One of the problems with the debt is *debt to foreigners*. What is that? Is that most likely to happen with net public debt, gross public debt, or Paul O'Neill's debt? Explain your logic.

According to the Treasury Department the gross public debt was \$30,316,415,445,123.62 on 2022/3/28. <https://fiscaldata.treasury.gov/datasets/debt-to-the-penny/debt-to-the-penny>

According to the Census Bureau's population clock at 2:14 on 2022/3/30, <http://www.census.gov/popclock/>, the population was about 332,592,813 people. That means the debt is \$91,151.75 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/> Therefore, if you earned 1 penny every 47 seconds (without earning interest) from the start of the solar system, you would not quite have enough to pay the debt. According to the Bureau of Economic Analysis, the GDP for the 12 months which ended December 31<sup>st</sup>, is estimated to be \$24.00 trillion. This means the debt-to-GDP ratio is 1.263. Therefore, the government owes 126.3% of the entire GDP. The GDP data was gotten from <https://www.bea.gov/news/2022/gross-domestic-product-third-estimate-corporate-profits-and-gdp-industry-fourth-quarter>