

Read Chapter 13 and answer the following questions:

1. What is the definition of fiscal policy?
2. What did Keynes believe that government had to do if an economy was in a recession or depression?
3. How is recessionary gap defined?
4. How is an inflationary gap defined?
5. What is expansionary fiscal policy?

6. When AD is increased when the economy is already on the LRAS, what happens to the price level?
7. What happens to the SRAS? Why is this according to your text?
8. What is contractionary fiscal policy? When should the government use this?
9. What does a rise in taxes do to consumption, investment and exports?
10. What are offsets to fiscal policy?

11. If taxes remain constant and the government wants to spend more, where does it get the money?
12. What impact does government borrowing (selling bonds) have on the interest rates?
13. What is the indirect crowding out effect?

14. What impact does the crowding out effect have on the AD that is expanded by government deficit spending?

15. According to the Ricardian Equivalence Theorem will a tax cut today lead to more consumption, or will people save for future tax payments?

16. Why do supply side economists argue that lowering tax rates can actually lead to higher tax revenues?

17. What is the time lag problem with Keynesian policy?
18. What are two key automatic stabilizers that occur during a recession?

Read Chapters 14 and answer the following questions:

1. How is the government budget deficit defined?
2. How does the government raise money when it has a shortfall in revenues?
3. What do bondholders get from the government when they buy a bond?
4. What is a balanced budget?
5. What is a government budget surplus?
6. What is a more accurate way to look at the budget deficit than simply looking at the current dollar deficit?
7. Which groups outside the US does the US government owe its debt to?
8. How are future generations affected by increased debt?
9. According to your text, what is crowded out when the government raises money through bonds?
10. How does deficit spending affect the short run real GDP when there is a recession or a recessionary gap?
11. How does deficit spending affect the short run when real GDP is at full employment levels?
12. How does the deficit spending affect the long run real GDP output?