Problem Set 9 with Solutions

Lecture 9: Fiscal Policy, Effects of Fiscal Policy on Real GDP and the Price Level, the Dynamic AD-AS Model, Government Purchases and Tax Multipliers, Limits of Fiscal Policy, and Deficits, Surpluses, and Government Debt

1. The slope of the planned aggregate expenditure function is 1/2. True, False, or Uncertain: A $50 million decrease in government expenditures will decrease real GDP by $100 million.

2. At the start of 2027, Boblandia's debt-to-GDP ratio was positive. In 2027, the government's budget balance was negative and net exports were positive. True, False, or Uncertain: Government debt was higher at the end of 2027 than at the beginning.