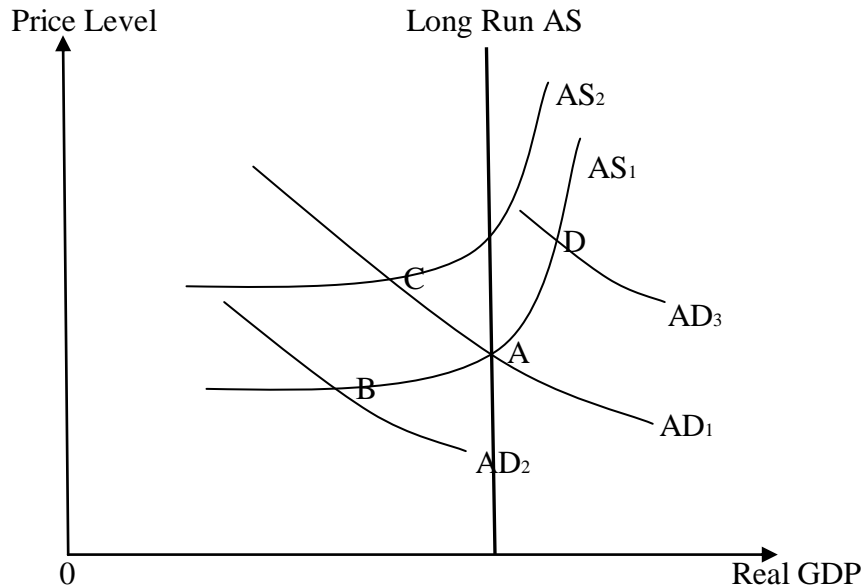


Principles of Macroeconomics
Mini Project (Chapter 9)

Instruction: (1) Fill in the blanks with the suggested words, or with your calculation. (2) You can either type the answer directly, or attach a saved file of your answer. (3) This mini project is worth 25 points.



1. In the figure showed, if the economy moves from A to B, it is in _____.
If the economy moves from A to C, it is in _____.
If the economy moves from A to D, it is in _____.
(overheating; recession; stagflation; full employment.)

2. Contractionary fiscal policy refers to _____ and/or _____.
Expansionary fiscal policy refers to _____ and/or _____.
(cutting tax rates; raising tax rates; decreasing government spending; increasing government spending.)

3. If the economy is operating at point A, you would suggest to President Bush an economic policy of _____.
(expansionary fiscal policy; contractionary fiscal policy; supply-side policy; do-nothing policy.)

4. When the economy is at A and if the government increase government spending, the economy would get into _____, and would have a _____ problem.
(overheating; recession; stagflation; full employment.)
(high unemployment; high inflation; declining real GDP.)

5. If the economy moves from A to B, the economy would have problems of _____ and _____. To cure the problem, the government should _____ and/or _____.
 (For blank 1 and 2: high unemployment; high inflation; declining real GDP.)
 (For blank 3 and 4: increase government spending, decrease government spending, raise tax, cut tax)
6. (Fill in the blanks with your calculation) Suppose MPC is 0.9 in this economy. The government spending multiplier is _____, and the tax multiplier is _____. If the government decreases spending of \$2 billion, its GDP would decrease by \$_____. If the government raises tax by \$2 billion, its GDP would decrease by \$_____.
7. (Fill in the blanks with your calculation) Suppose when the economy operates at A, the real GDP is \$1000 billion. Now the economy moved to B, the real GDP dropped to \$950 billion. The GDP gap is _____. If MPC is 0.9, the government should spend \$_____ to pull the economy out of recession.
8. When an economy is at D, the government should _____ and/or _____ which would be likely to cause a budget _____.
 (increase government spending, decrease government spending, raise tax, cut tax)
 (deficit, surplus)
9. When the U.S. economy was at C during the 1980s, the Reagan administration adopted _____ policy.
 (expansionary fiscal policy; contractionary fiscal policy; expansionary monetary policy; contractionary monetary policy; supply-side policy; do-nothing policy.)