Fiscal Policy: Problems

1. True. Most economists do not believe that monetary policy affects teh long-run levels of output or employment (although it does affect inflation in the long-run). Fiscal policy may, however, have these effects. Fiscal policy can have long-run effects by affecting long-term interest rates ("crowding out" in the case of high debt is one way). It can also affect labor supply through tax rates.

2. The total public debt is the entire amount of bonds (*i.e.* Treasuries) that the government has issued. This was $27.7 trillion as of March 2021. The debt held by the public excludes the amount of its own debt that the government owns through such programs as Social Security, Medicare, etc. This was $21.7 trillion for the U.S. Federal government as of March 2021.

3. It can be greater than one if the initial increase in government spending then leads to greater consumption (or some other component of GDP). Intuitively, if consumption tends to increase along with income, then the initial increase in output caused by increasing G can lead to further increases in output.

On the other hand, increasing G can reduce consumption or investment. One way is that higher government expenditures may increase interest rates, which may then reduce C or I.

4.False. The tax multiplier is usually negative, implying that higher taxes reduce output. It also appears to depend on high tax rates are to begin with. It may be close to zero in low tax economies, but closer to -5 in high tax economies.

5. By increasing the supply of debt, it may lower bond prices and increase interest rates. This can deter investment , reducing the capital stock

6. Sovereign debt crises refer to cases where governments cannot find buyers for their new debt issuance. If this happens, a government has several bad options. Default can raise interest rates and harm the holders of debt, often a country's own citizens. Raising taxes or cutting spending reduces demand making a recession worse. Finally, printing money can lead to high inflation.

7. First, it will likely render the government unable to borrow at low interest rates for an extended period of time. Second, it causes a loss of wealth for whoever owns the bonds, This can cause household to suffer or private financial institutions to fail, damaging the economy

8. This refers to contractionary fiscal policy when faced with the risk of a sovereign debt crisis. The term was often used to describe European governments that reduced their spending or raised taxes during the European Sovereign Debt crisis around 2010-12.

9. It is mostly an adverse supply shock that tends to increase inflation and reduce output. A worse climate may reduce labor supply through worse health and reduce the capital stock through more natural disaster. The impact may be especially pronounced in the agricultural sector.

10. False. It is true that the U.S. could pay off most of its debt through new money. This is not desirable, however,because of the likely severe inflation. Most economists view the U.S. sovereign debt as a significant concern, although not necessarily an urgent one.

11. Yesterday was Thursday, Thursday Today is Friday, Friday (Partyin') We, we, we so excited, we so excited (Partyin') We gonna have a ball today Tomorrow is Saturday and Sunday comes afterwards I don't want this weekend to end!