

Economics 103, Fiscal Policy Module

Winter 2020

Bates College

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To complete this assignment, you should:

1. Watch the recorded lecture on Fiscal Policy, Deficits, and Debt. This will provide you with much of the necessary background.
2. Research the recent \$2 trillion U.S. fiscal stimulus bill, officially known as the Coronavirus Aid, Relief, and Economic Security Act (CARES). There are many summaries of this bill. [Here](#) is one from *Marketwatch*. Here is an [op-ed](#) from Nobel prize winning economist Joseph Stiglitz on the bill.
3. Here is a [new research paper](#) on the macroeconomics of the covid-19 pandemic by Veronica Guerrieri and co-authors. Please read the abstract of this paper.
4. Read this [new research](#) on tax multipliers by several economists, including Bates Professor Daniel “The Executioner” Riera-Crichton.

Instructions: Answer all parts of all questions. You are expected to independently craft your answers. Answers which incorporate current macroeconomic data are especially encouraged. The assignment is due by 11:59 PM on Monday, April 13.

1. How might the CARES law increase output, and what is the most likely impact on inflation?
2. The CARES act entails major economic tradeoffs. How should policy makers evaluate these tradeoffs to determine if the bill is a net positive?
3. True or False? The expansion of the national debt because of CARES makes an imminent U.S. sovereign debt crisis quite likely.

4. What is the economic rationale for providing several hundred billion dollars in small business loans as part of CARES?
5. CARES includes \$400 billion to facilitate up to \$4 trillion in Federal Reserve lending? How does this program work and what are its possible economic benefits? Will it increase the U.S. national debt by \$4 trillion?
6. Was the 2019 U.S. budget deficit the biggest in the country's history?
7. Read the abstract of Guerrieri *et al.* (2020). Using our AS/AD model, explain the authors' novel explanation of the current crisis?
8. What fiscal policy recommendations do Guerrieri *et al.* (2020) for the current crisis, and how well do these match the CARES bill.
9. According to Riera-Cricton *et al.* (2019), which types of countries have larger (in magnitude) tax multipliers?
10. Why can some countries have positive tax multipliers where higher taxes actually increase output? Is this likely for the United States?