1. Define and describe the concept of “fiscal policy”, focusing on what is manipulated, by whom and for what reason
2. Why would economists argue that automatic stabilizers are an excellent tool that instituted by government that can quickly fight a newly developing recession
3. What is the difference between automatic stabilizers and discretionary fiscal policy?
4. Discretionary fiscal policy, to be truly effective, must have three basic characteristics. What are those three characteristics and why are they so important?
5. When implementing discretionary fiscal policy the most difficult thing to do is to get the magnitude, or dollar size, of the policy change just right. Why is this so?
6. Economists argue that discretionary fiscal policy actions that involve spending $100 billion would not have the same overall effect on the economy in the short run as a $100 billion cut in taxes. Why so?
7. Which type of discretionary fiscal policy is likely to have the smallest overall effect on GDP because of the low MPC related to the policy?
8. Some discretionary fiscal policy actions involve borrowing the money. Under what conditions would a rise in government spending financed by borrowing lead to very little, if any, increase in GDP?