1. Chapter 18, Problems and Applications (5 points): #2

2. Chapter 18, “Made up problem”- Stabilization policy and its limitations (5 points):
   (a) Define the inside lag and the outside lag.
   (b) Which type of lag is longer for monetary policy? Which type is longer for fiscal policy?
   (c) What types of advancements or institutional changes might shorten each type of lag?

3. Chapter 19, “Made up problem”- the Stimulus Package (5 points):
   (a) Using the classical model of Chapter 3, what is the effect of the “stimulus package” in the long run?
   (b) Using the Solow growth model of Chapter 7, how do the long run effects described in the previous question affect the steady state capital stock and steady state output?
   (c) If, previous to the increase in government spending and decrease in taxes, the steady state capital stock were below the Golden Rule capital stock, what would the “stimulus package” do to consumption in the long run?
   (d) Using the IS-LM model, describe the short run effects of the “stimulus package”.
   (e) Given what you know about the effects of increasing the budget deficit (both in the short-run and the long-run), if you were a member of Congress, would you have voted to approve the “stimulus package”? Why or why not?

4. Chapter 20, Problems and Applications (10 points): #1, #4