**Unit 3 Practice Problems**

1. If the government is in a recession, which fiscal policy action would the government choose to bring the economy back to equilibrium.
   1. Increase taxes c. Increase the Reserve Requirement
   2. Decrease taxes d. Decrease the Reserve Requirement
2. There is a 10 billion dollar recessionary gap and the MPC is .8. The Government decides to increase spending to close gap. What is the minimum amount of spending needed to close that recessionary gap?
3. There is a 60 billion dollar inflationary gap and the MPC is .75. The Government decides to increase taxes to close the gap. What is the minimum amount of tax increases needed to close that gap?
4. There is a 90 billion dollar recessionary gap and the MPC is .9. The Government decides to decrease taxes to close the gap. What is the minimum amount of decrease in taxation needed to close the gap?
5. There is a 100 billion dollar inflationary gap and the MPC is .8. The Government decides to increase taxes to close the gap. What is the minimum amount of tax increases needed to close the gap?

**AD/AS Graphing Practice**

Draw each graph in equilibrium and then draw the shift.

1. There is widespread fear of a recession.
2. A new technological advancement comes out that increases worker production in factories.
3. China, a close trading partner of the US, has a massive recession.
4. War breaks out between the US and Iran, causing the straight of Hormuz (20% of worlds oil travels through here) to close.
5. Congress passes a new bill decreasing income taxes by 20%.
6. The Federal Reserve decides to decrease interest rates.
7. Congress passes a spending bill where they decide to build a wall around the entire border of the United States.