

# Fiscal Response

GDP, Inflation and Unemployment

Group Members: \_\_\_\_\_

Get in a group and hammer out a policy initiative for the following scenario.  
Due at end of period.

You read the following information about the economy:

- Real GDP up 3% from a year ago
- Unemployment rate of 4.6% down from 4.8%
- Consumer price index up 4% from a year ago
- Index of leading indicators up for the last 6 months
- Prime interest rate of 7%, up from 5.5% a year ago

**Part A.** Explain what each of these economic indicators measures and the significance of the current data for the economy.

GDP:

Unemployment rate:

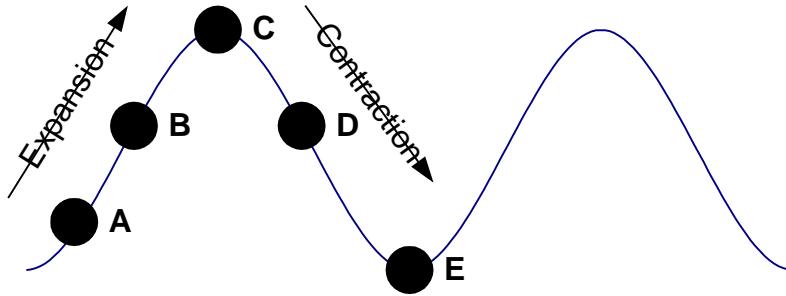
CPI:

Leading Indicators:

Interest Rates (cost of money):

**Part B.** These indicators should paint a picture of the entire economy. Describe that picture.

Where in the business cycle and what direction? Evaluate the current state of the economy:



**Part C.** What Fiscal Policy Response would be most appropriate at this time? Keep in mind the impact of policy lags (time it takes to start a policy initiative [inside lag] and time it takes for the policy initiative to take effect [outside lag]).

Taxation Policy:

Spending Policy:

Automatic Stabilizers:

Which automatic stabilizer would have the greatest impact? Why:

**Part D.** Impact on Budget/Debt

(1) What impact would your policy initiative have on the current budget (deficit or surplus).

(2) What impact would your policy have on the current government debt?