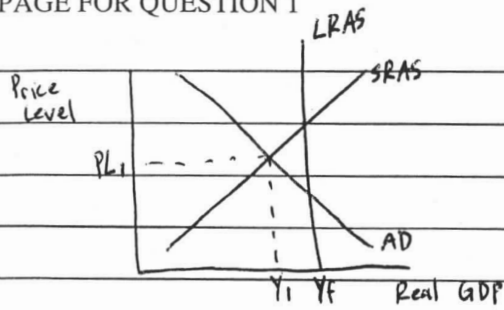


ANSWER PAGE FOR QUESTION 1

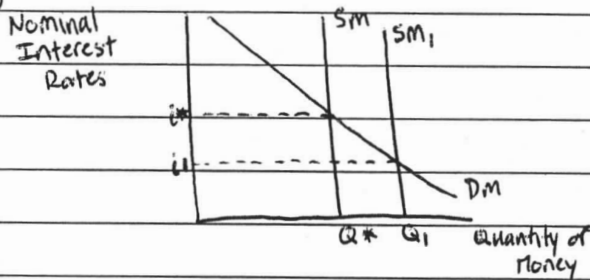
1A1

1. a)



b) A lower federal funds rate

c)



d) i) \$60 billion

ii) The minimum required change in taxes will be greater than the minimum required change in government spending, because changes in taxes are weaker than changes in spending and the tax multiplier is always less than the spending multiplier.

e) i) Aggregate demand will increase because consumption will increase due to the lower income tax rates.

ii) LRAS will stay the same because no change is being made to factors of production, education, technology, or trade.

GO ON TO THE NEXT PAGE.