

2. Assume a country's economy is currently operating below full employment.
- (a) Identify a fiscal policy action the country's government could implement to restore full employment.
 - (c) Based solely on the real interest rate change shown in part (b), what will happen to each of the following?
 - (i) Net exports. Explain.
 - (ii) The stock of physical capital. Explain.

Begin your response to this question at the top of a new page in the separate Free Response booklet and fill in the appropriate circle at the top of each page to indicate the question number.