1. Assume a country's economy is operating below full employment.

(b) Identify one fiscal policy action the country's government can take to restore full employment.

(c) Assume instead that no fiscal policy action is taken. Suppose a change in investment spending causes real GDP to increase by $\$200$ billion. Calculate the minimum change in investment spending that could have caused this increase in real GDP if the marginal propensity to save is 0.25. Show your work.

(d) Assume the output gap was initially $\$800$ billion. On your graph in part (a), show the short-run effect of the change in investment spending identified in part (c), labeling the new equilibrium real output as Y_2 and the new equilibrium price level as PL_2.

(e) Given your answer to part (d), is the actual rate of unemployment greater than, less than, or equal to the natural rate of unemployment? Explain.

(g) Based solely on the change in the real interest rate shown in part (f), what will happen to each of the following?

(i) Real GDP in the short run. Explain.
(ii) Long-run aggregate supply. 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.