3. Assume that Jamaica has a cyclical unemployment rate of 4% and a balanced capital and financial account (CFA).

(a) Identify a specific fiscal policy action that Jamaica's government would take to bring its economy to full employment.

(b) Based solely on the short-run change in real output resulting from the fiscal policy action identified in part (a), what will happen to Jamaica's net exports? Explain.

(d) How will the change in net exports identified in part (b) affect Jamaica's capital and financial account (CFA)? 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.

STOP

END OF EXAM