Solutions

Each answer shows the steps, then the **result**.

2.1

- the government's use of spending and taxes to influence the economy

2.2

- expansionary fiscal policy

2.3

- it increases (shifts right) AD

3.1 C

3.2 B

3.3

(a)

- increase government spending (or cut taxes)

(b)

- AD shifts right

(c)

- multiplier $= \dfrac{1}{1-0.8} = 5$, so spending $= \dfrac{100}{5} = \$20$ billion