

Solutions

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

2.1

- the fall in private investment caused by government borrowing

2.2

- it raises it

2.3

- the higher real interest rate reduces private investment, so the total effect on AD and future growth is smaller than intended

3.1 B

3.2 B

3.3

(a)

- it rises

(b)

- it falls

(c)

- crowding out