

Question 3: Short**5 points**

(a) (i) State that the government budget will move into deficit in the short run and explain that tax revenues (T) will decrease and transfer payments (TR) will increase. **1 point**

(ii) State that the government debt will increase. **1 point**

Total for part (a) 2 points

(b) Identify an increase in taxes or a decrease in government spending. **1 point**

(c) State that the actual unemployment rate will increase in the short run and explain that aggregate demand will decrease, which will decrease real output. **1 point**

(d) State that the government's efforts to maintain a balanced budget made Geeland's recession more severe in the short run and explain that in order to maintain a balanced budget, the government had to implement contractionary fiscal policy during a recession. (It is also acceptable to explain that the government's efforts to maintain a balanced budget will decrease real output or aggregate demand and that unemployment will increase.) **1 point**

Total for question 3 5 points