# Illustrate graphically and explain the Ricardian Equivalence proposition and the associated size of the government spending multiplier in the two-period model when government spending rises from zero. In comparison, explain the impact of a rise in government spending in the Blanchard IS-LM-PC model with endogenous money starting at when the central bank does and does not respond to the change in government spending. Briefly explain why it is difficult to empirically estimate the size of the government spending multiplier due to the problems of endogeneity due to simultaneity. Discuss which theoretical model is most consistent with empirical estimates of the government spending multiplier.

Tad’s essay plan:

* Intro
  + Explain structure of essay
* Ricardian Eq.
  + Graph
  + Multiplier
  + Graphical representation of G increase
* Blanchard IS-LM-PC
  + Graph
  + Multiplier
  + Graphical representation of G increase
* Comparison between both models
  + Compare the predicted impact of the effect of government spending
* Equation for government spending multiplier
  + Explain the equation and the problems of simultaneity
* Discuss empirical evidence
  + Compare evidence to theory