7.

a. They would think that the MPC would be .6

b. Their new estimate would be smaller than the original because crowding out drops to the left.

12.

a. When the economy goes into the recession you would have to cut taxes, which would shift AD to the right and hopefully help lift the economy out of the recession.

b. When the economy goes into a recession government spending will increase which in turn will move AD to the right and help lift the recession.

c. If the government was under a strict balanced budget rule it would have to either override it or wait for the economy to recover on its own.