

Practice: The economics of Government Spending (AOC, GND, GDP) Spring 2019

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Step 1. First ask your self the following question: What does the Government do? Can government spending increase GDP? Why or why not?

Step 2. AOC has advocated the “Green New Deal” henceforth GND.

I don’t know what is in it, but lets suppose that the GND is simply an increase in government expenditure. **G goes up—that’s it. No change in L , K , or tax rates, TFP, etc...**

- Does this plan change the number of people employed or quantity of capital?
- Does this plan change GDP?

Step 3. Ok now reflect on these questions...

- Does this plan change national savings? What is the issue?
- How would this plan change the quantity of investment in the economy? Real interest rates?

Step 4. AOC decides to change the plan and finance the GND with a corresponding increase in taxes. **T goes up by the exact same amount as G .** The plan is what experts would call “deficit neutral.”

- Does this plan change national savings? What is the issue?
- How would this plan change the quantity of investment in the economy?

Step 5. If a goal of the GND is to increase GDP, what would an argument be...Pro Tip: keep it within the confines of what we have learned. Think about how production is determined and who gets the benefits in terms of income.