Andrew L. H. Parkes, Ph. D. Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Macroeconomics

Student ID \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Problem Set #3

October 13, 2016

15 points

Assume that the equations below represent a closed economy.

C = 80 + 0.6(YD) YD = Y - T

I = 1000 T = 400

NX = (*X* – *Im)* = 0 G = 500

1. Solve for:

1. Equilibrium GDP (Y)
2. Disposable Income (YD)
3. Consumption Spending (C)
4. Private Saving
5. Public Saving
6. The multiplier

2. Verify that, in equilibrium total saving equals investment.

3. Suppose that the government wishes to increase equilibrium GDP by 100.

1. What change in government spending is required?
2. If government spending cannot change, what change in taxes is required?

4. In reality, taxes depend upon income as well as a “lump-sum” (exogenous) tax, what is equilibrium GDP if T = 400 + .1(Y)?

5. On the back, graph the Keynesian Cross diagram.