1, the same analysis with what he taught in class.

Temporary decrease in g, will lead Y supply decrease by beta, and Y demand decrease by 1. And we will have decrease r. so consumption increase by little, and investment increase by a lot in equilibrium(long-run)

Permenant decrease in g, will decrease y supply by beta. And consumption increase by alpha(direct effect of g on c) and decrease by alpha(want to smooth consumption??), decrase by beta(because decrease in production), and increase by 1(by decrease in tax). Thus the total will lead to y demand also decrease by beta. And will have the r unchanged.

2 expected increase in future government spending will have an expected decrease in future income. When labor supply and capital supply fixed, consumption smoothing will reduce current consumption, and saving increase(investment), since there is no change in GDP.

3 (this question is actually from chapter 11, because of cancelling class leads to lack of knowledge of chapter 12)

a) Growth rate of real money balance(mt/pt)=growth rate of nominal money – inflation rate

   How increase in money growth rate affects price level?

   -figure 11.9, this leads to jump in the price level. And price growth rate =money growth rat.

b) there is just a couple of steps to get formula on page 210. That is, real revenue from printing money=money growth rate* level of real money balance.

(C) from answer b, we can see that government revenue from printing money increases with money growth rate, but decreases with respect to real balances. Higher money growth rate will lead to higher nominal rates, which reduce money demand. The more sensitive money demand is to these nominal rates, the more it will reduce the governments’ real revenue from printing money.