

Midterm #2 Answer Key

Part I: Matching

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|------|-------|
| 1. F | 6. D |
| 2. C | 7. E |
| 3. A | 8. J |
| 4. B | 9. B |
| 5. G | 10. I |
| | 11. G |

Part II: Short Answer:

Table (5 points)

Row #	Y (Income)	T (Tax)	Yd(Disposable Income)	C (Consumption)	S (Saving)
1	120	20	100	150	-50
2	220	20	200	230	-30
3	320	20	300	310	-10
4	420	20	400	390	10

- a) $MPC = .8$
b) $MPS = .2$
c) Autonomous Consumption = 70
d) Rows 2 and 3
- 2.a. $Y_e = 1640$
b. $S = -150 + .25(Y-T)$
c. $S = 210$
d. $S+T+M = I + G + X$; plug in all values and demonstrate that both equal 450
e. Change in $Y = 200$
f. Change in $G = 90$
g. Change in $G = \text{Change in } T = 360$
- 3.a. Foreign Sector
b. $AE = C + I + G$
c. $Y_e = 100$
d. Employment will rise; cyclical unemployment will fall
e. Great Britain; In bed

Part III: Multiple Choice:

1. C
2. B
3. E
4. A
5. D
6. C
7. B
8. C
9. E
10. D