Econ 102 Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Summer 2013

Quiz #4

Please write all answers neatly and legibly.

1. Suppose that an economy can be described with the following information:

C = 50 + .75(Y – T)

T = 20

G = 100

I = 60

X – M = 20

where C is consumption spending, Y is real GDP, T is autonomous taxes, G is government spending, I is investment spending, and (X – M) is net exports.

* 1. (1 point) Given the above information, what is the equilibrium level of real GDP in this economy? Assume that the aggregate price level is constant in this economy. Show your work for full credit.
  2. (1 point) Holding everything else constant, what is the equilibrium level of private saving in this economy? Show your work for full credit.
  3. Suppose the full employment level of real GDP for this economy is 900. Given your answers in (a) and (b) and the above information answer this next set of questions.
     1. (1 point) This economy is in a (boom, recession).
     2. (1/2 point) This economy’s actual unemployment rate is (greater than, less than, equal to) the natural rate of unemployment.
     3. (1/2 point) Given the above information and holding everything else constant, if this economy attempts to produce at the full employment level of output inventories will (increase, decrease, be unchanged).
  4. (1 point) Suppose that policymakers in this economy decide to use government spending to reach the full employment level of output. What must the change in government spending be if the economy is to reach full employment, holding everything else constant? Show your work for full credit.
  5. (1 point) Suppose government policymakers decide to reach full employment solely through changes in autonomous taxes. Explain verbally whether taxes will need to be increased or decreased to reach this goal.

1. (2 points) Suppose the loanable funds market is initially in equilibrium. Then suppose the government increases the size of the deficit. Holding everything else constant, what do you predict will happen to the level of private investment and the level of the interest rate?
2. (2 points) Suppose the loanable funds market is initially in equilibrium. Then suppose the trade deficit is reduced. Holding everything else constant, what do you predict will happen to the level of private investment and the level of the interest rate?