

Answer Key for the Homework due on April 27 – Selected questions

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- (7) a- $P=144.2$; $GDP=12.8$.
b- G-multiplier is 2, and the goal is to increase GDP by 0.1, thus, G must increase by 0.05.
c- Similarly, taxes should decrease by 0.0625.
d- Inflation without policy = 3%; inflation with policy = 5%.
- (9) a- Most likely if investment is crowded out.
b- If G is on bridges and highways it would work as some sort of I, encouraging economic growth.

Pp 513

- (1) Since $MPC = 0.6$, the G multiplier is 2.5, the tax multiplier is -1.5 and the balanced budget multiplier is 1.