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

Summer 2014

Quiz #4

Please write all answers neatly and legibly.

1. (3 points) Suppose the loanable funds market is initially in equilibrium. Holding everything else constant, if the government increases the size of its surplus what do you predict will happen to the equilibrium interest rate and the equilibrium level of private investment spending? Explain your answer verbally and also provide a graph of the loanable funds market to support your analysis. Make sure your graph is completely and fully labeled.
2. (2 points) Suppose the loanable funds market is initially in equilibrium. Holding everything else constant, what will happen to the equilibrium interest rate and the equilibrium level of private savings if the country runs a trade surplus? Explain your answer verbally and also provide a graph of the loanable funds market to support your analysis. Make sure your graph is completely and fully labeled.
3. Suppose that an economy can be described with the following information:

Sp = -20 + .2(Y – T)

T = 10

G = 20

I = 20

X – M = -20

where Sp is private savings, Y is real GDP, T is autonomous taxes, G is government spending, I is private investment spending, and (X – M) is net exports. Assume there are no government transfers.

1. (1 point) From this information we know that the government is currently operating with a \_\_\_\_\_\_\_\_ and that the economy has a trade \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
2. (1 point) What is this economy’s consumption function with respect to Y?
3. (2 points) What is the equilibrium level of output in this economy given the above information? For full credit show your work.
4. (1 point) What will be the change in GDP if the government of this economy increases its spending to 40 while holding everything else constant? For full credit show your work.