

Revisiting Trump's Economic Plan

Recall from Midterm 1: Donald J. Trump's Presidential platform outlines a substantial tax decrease by reducing tax rates for a large majority of Americans. This tax reduction will be off-set by a substantial reduction in government spending. That is Trump's tax plan is deficit neutral.

Let's revisit this plan in the context of the small-open economy model discussed in Chapter 6-1 and 6-2 of Mankiw.

1. The United States is currently running a trade deficit, that is net exports are negative. Carefully illustrate savings, investment, net exports, and the world real interest rate that corresponds with the situation in the United states.



2. Describe how Trump's plan will affect: National savings, investment, net-exports, real GDP, and the real interest rate.

3. A colleague argues that Trump's economic plan will "Make America Great Again" by stimulating investment which leads to capital formation and, thus, raises real GDP in in the future. Is this argument consistent with your analysis in **2**. Why or why not?