

ECON10003
Introductory Macroeconomics
Semester 1, 2021

Review Session 2

Thursday 1st April, 11am – 12pm and 3.15pm – 4.15pm (repeated) face to face class The Spot-B01 (Copland Theatre), FBE Building. You can attend any one of these two streams.

Questions to be discussed

1. A three-sector economy is described by the following equations:

$$G = 1000$$

$$T = 1000 + 0.1Y$$

- a) Find an equation linking planned aggregate expenditure to output.
 - b) What is the level of exogenous expenditure in this economy?
 - c) What do we mean by the marginal propensity to consume? What is the marginal propensity to consume in this economy?
 - d) What is the equilibrium level of GDP?
 - e) What is the value of the multiplier in this economy?
 - f) Sketch a graph of the PAE and the consumption function, labelling the axes of the graph. Discuss the economic meaning of (a) a movement from left to right along the graph of the consumption function; and (b) a parallel upward shift of the consumption function.
2. In recent months, there has been some discussion of a free trade agreement between Australia and Indonesia. Each country has agreed to abolish almost all tariffs on the goods of the other country. Government of both countries are hopeful that this agreement will benefit both the economies. Use the Keynesian model of the macroeconomy to describe what effect this will have upon the Australian economy. Be specific and describe what components of expenditure are affected and why. Discuss the adjustment process associated in moving from an initial equilibrium (before the agreement) to a final equilibrium (after the agreement) in detail. In particular, discuss the mechanism that leads to a change in output. Include a relevant diagram
3. In the context of the basic Keynesian model studied in this subject, which of the following statements is incorrect?
- (a) An increase in exogenous consumption results in a steeper planned aggregate expenditure line.
 - (b) An exogenous payment from the government to households moves the withdrawals schedule downwards.
 - (c) An exogenous fall in exports results in an unplanned increase in inventories.
 - (d) Firms adjust their production in response to unplanned changes in inventories.

4. Suppose there is no government sector in an economy of Notaxland and is open to trade. So $PAE = C + I + X - M$. We will write the consumption function as _____ and the import function as _____. Exports (X) and investment (I) are exogenous. Imagine c has a value of 0.80 and that m has a value of 0.2. What is the (approximate) value of the “exogenous consumption multiplier” in this economy?

- a) 1.33
- b) 1.67
- c) 2.50
- d) 5.00

5. Given the following information about a particular economy, by how much would exogenous expenditure have to change to eliminate the output gap?

$$C = 2,000 + 0.75Y$$

$$I_p = 500$$

$$Y^* = 14,000$$

- a) 250
- b) 500
- c) 1000
- d) 2,000

