Group Work II

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Q1: suppose $c_0 = 100, c_1 = 0.6, \bar{I} = 150, G = 150, T = 100$.

(1) What is equilibrium output?

(2) What is disposable income?

(3) What is consumption?

(4) If c_0 decreases to 50, what is the change in equilibrium output?

(5) What is demand when $_0 = 100$? Does it equal output?

Q2: Government spending **decreases** by \$500 million.

(1) Graphically show the impact of this reduction of government spending on equilibrium output.

(2) Graphically explain the multiplier effect of this reduction of government spending.