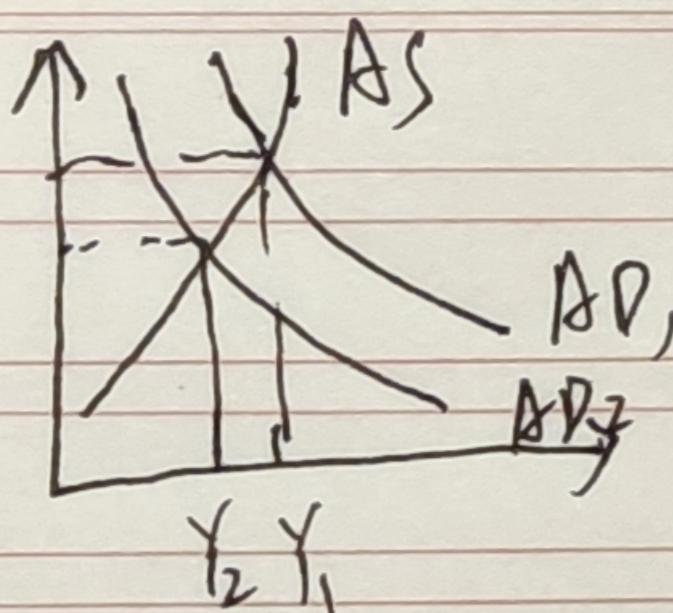


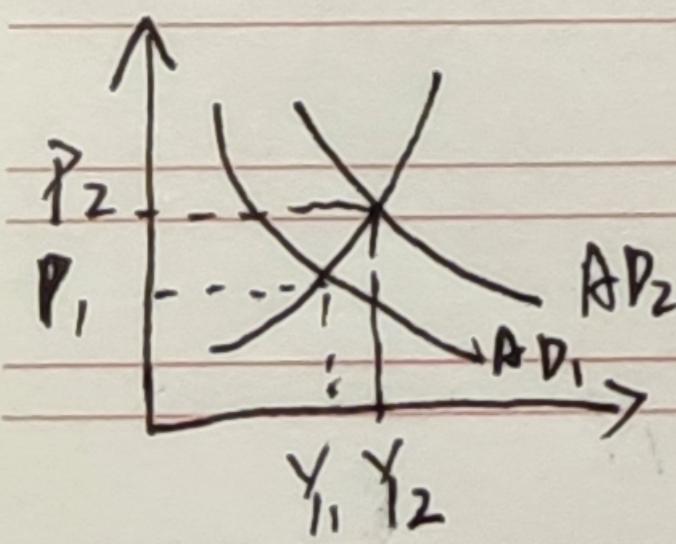
1. (a)



Using a contractionary fiscal policy, which

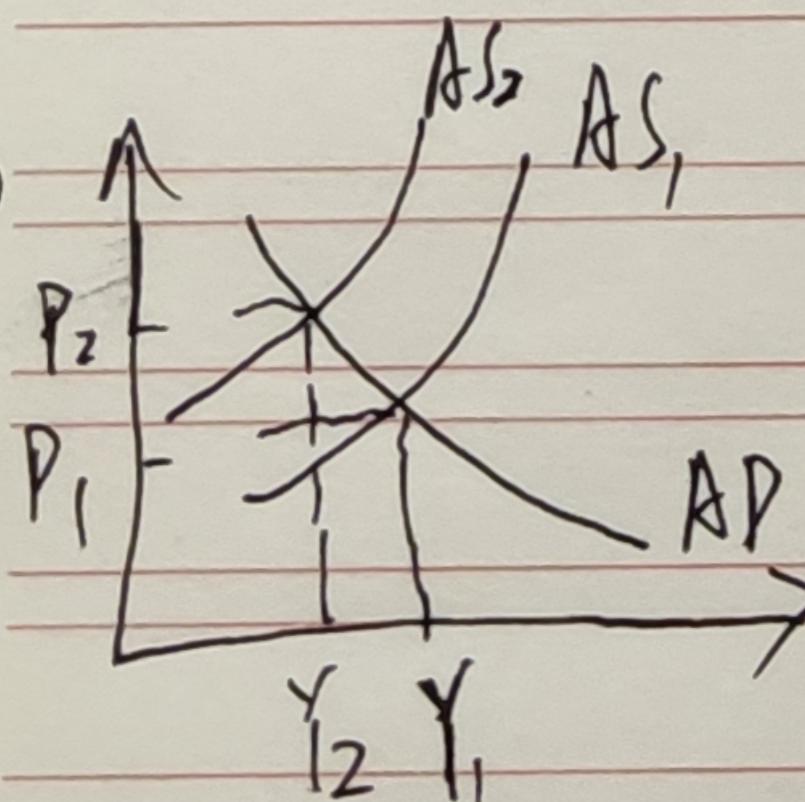
means $G \downarrow, T \uparrow \rightarrow AD$ curve move
downwards, which decrease price and output

(b)



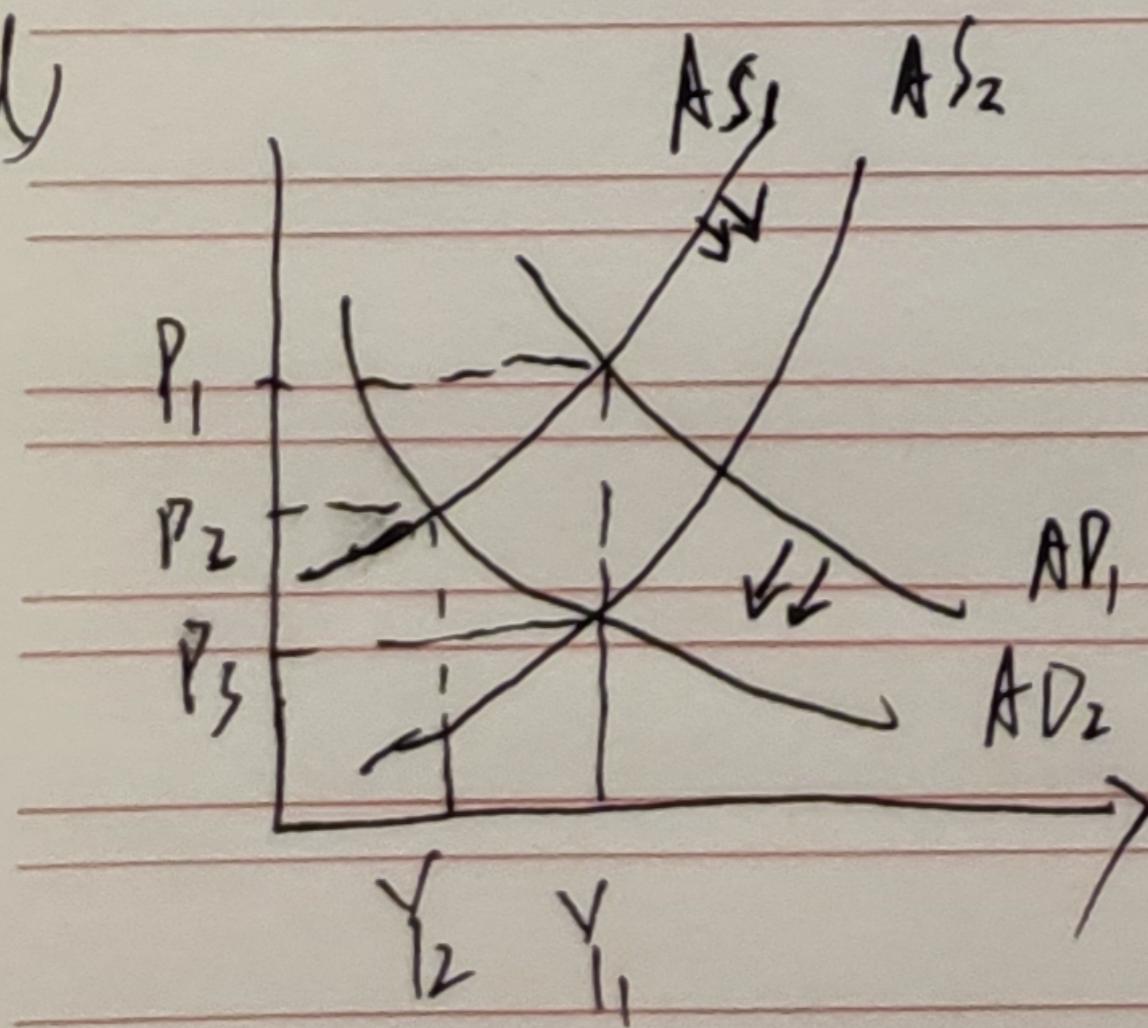
Using the ~~expansionary~~ policy, $M S \uparrow$, which means
the AD curve will move upward, so the output
and price will both increase

(c)



Using a contractionary fiscal policy, which
causes a supply shock, the AS move upward.
So the price increases and output decreases.

(d)



Using a contractionary fiscal policy,

leads AD curve move ~~downward~~ download

The Fed's action will lead AS curve
move download. As a result the

price will decrease and the ~~out~~
output will unchanged.

2.

c) when eqn of b'rum

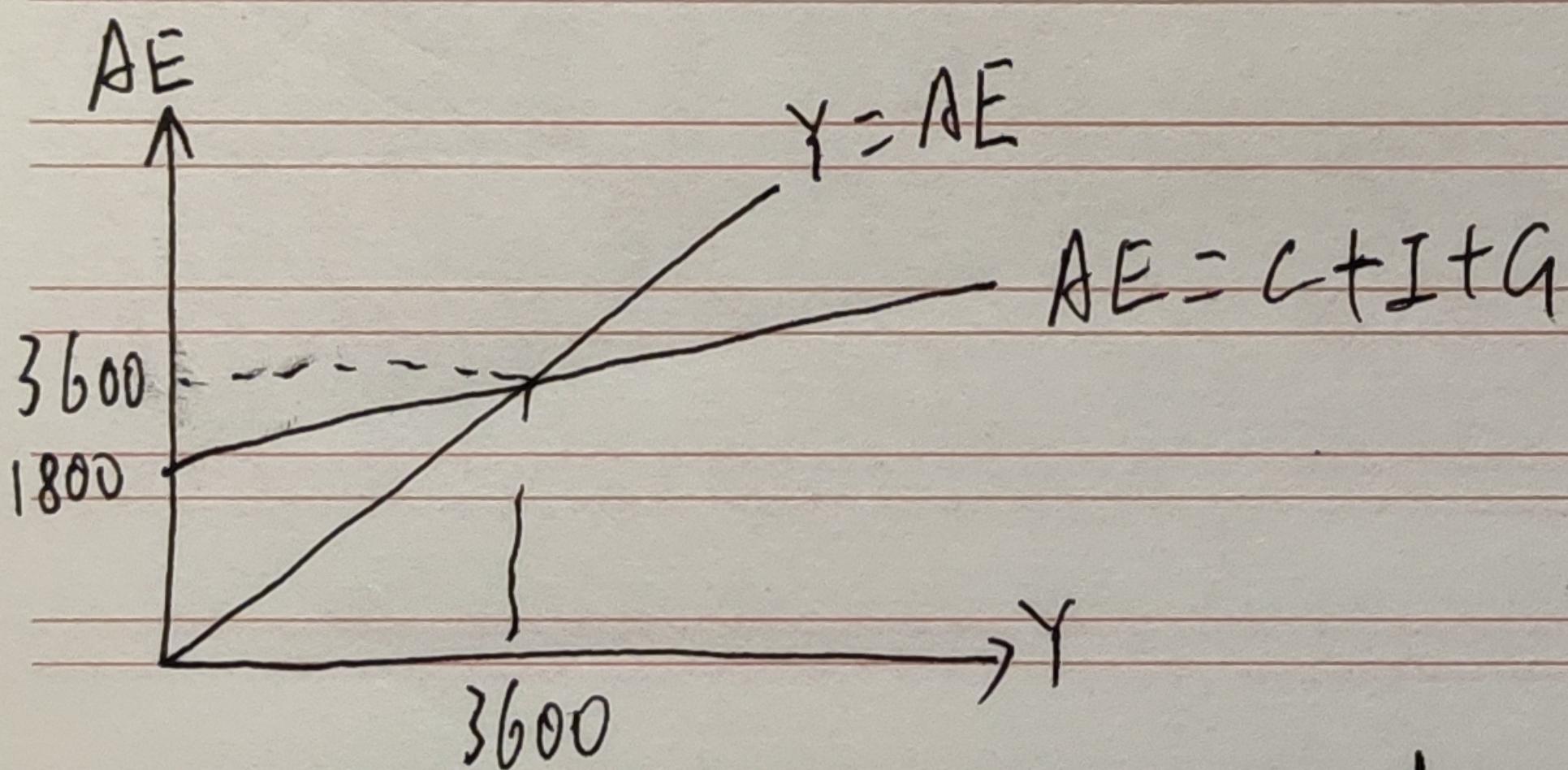
$$Y = AE = C + I + G$$

$$= 1000 + 0.5 Y_d + 500 + 400$$

$$= 1900 + 0.5(Y - T)$$

$$= 1900 + 0.5(Y - 200)$$

$$\therefore Y = 3600$$

(b) Government spending multiplier = $\frac{1}{MPS}$

$$C = 1000 + 0.5 Y_d = 900 + 0.5 Y$$

$$\therefore MPS = 1 - 0.5 = 0.5$$

~~$$\Delta Y = \frac{1}{0.5} \times 400 = 800$$~~

$$\Delta Y = \frac{1}{0.5} \times 400 = 800$$

$$\therefore Y^* = 4400$$

(c) tax multiplier = $-\frac{MPC}{MPS} = -1$

$$\Delta Y = -1 \times 400 = -400$$

$$\therefore Y_{\text{new}} = 3600 - 400 = 3200$$

$$(d) G' = 800, T' = 600$$

$$Y = AE = C + I + G'$$

$$= 1000 + 0.5 \cdot (Y - 600) + 500 + 800$$

$$Y^*_{\text{new}} = 4000$$

$$(e) Y = AE = C + I + G$$

$$= 1000 + 0.5 [Y - (-100 + 0.1Y)] + 500 + 400$$

$$= 0.45Y + 1950$$

\star_{new}

$$Y^*_{\text{new}} = 3845.45$$

4.

wilso	do ads	not do ads
do ads	0, 0	48, -1
not do ads	-1, 48	8, 8

Use the Nash equilibrium, the best way to be profitable is that the both ~~comp~~ companies ~~ad~~ do ads, which can achieve the Nash equilibrium, but the profit is zero.

So the strategy is when one ads, the other one ~~ad~~ don't ad, so the total profit is 47 billion

$$(d) G' = 800, T' = 600$$

$$Y = AE = C + I + G'$$

$$= 1000 + 0.5(Y - 600) + 500 + 800$$

$$Y^*_{\text{new}} = 4000$$

$$(e) Y = AE = C + I + G$$

$$= 1000 + 0.5[Y - (-100 + 0.1Y)] + 500 + 400$$

$$= 0.45Y + 1950$$

~~Y^{*}~~
new

$$Y^*_{\text{new}} = 3545.45$$

4.

wilso	do ads	not do ads
do ads	0, 0	48, -1
not do ads	-1, 48	8, 8

Use the Nash equilibrium, the best way to be profitable is that the both ~~compa~~ companies ~~do~~ do ads, which can achieve the Nash equilibrium, but the profit is zero.

So the strategy is when one ads, the other one ~~don't~~ don't ad, so the total profit is 47 billion

5. (a)

firm 2

firm 1

		do ads	not do ads
		do ads	6, 2
do ads	do ads	10, 10	6, 20
	not do ads	8, 4	

(b) firm 1 do not have dominant strategy

(c) Dominant strategy for firm 2 is do ads

(e) Nash equilibrium for both firm is (10, 10), which both firm will do advertises