Week 7 Review Session Questions

Thursday, February 20th, 4 and 5pm, North Hall 1110

1. Use the information in the following table to answer the questions. Assume that the values represent billions of 2009 dollars.

Real GDP (Y)	Consumption (C)	Planned Investment (Ip)	Government Expenditures (G)	Net Exports (NX)	Aggregate Expenditures (AE)	Change in Inventories
5000						
6000				450		
7000		1000				
8000	6520					
9000	7320					
10000	8120		230			

a. What is the MPC?
b. What is the equilibrium level of Y?
c. You are told that taxes are equal to 0, what is the level of autonomous consumption?
d. The full-employment level of output is 3000 below the current level of output. How much should the government change G in order the new equilibrium level of output to be equal to the full-employment level of output?
e. What will happen to the level of Y (starting at the Y in part B), if taxes increase by $250?

2. Describe the difference between expansionary and contractionary fiscal policy. Is counter-cyclical fiscal policy always expansionary? Is counter-cyclical fiscal policy always contractionary?

3. Graphically show an economy that is in equilibrium at a full-employment level of output. Imagine that there is an event that causes aggregate expenditures to decreases. How should fiscal policy makers respond in order to bring the economy back to full-employment? Show these change on your graph.

4. Calculate the change in real GDP that would result in each of the following cases, assuming there are no automatic stabilizers.

   a. Planned investment spending rises by $200 billion and the mpc=0.6.
   b. Autonomous consumption spending decreases by $20 billion and the mpc=0.8.
   c. Government purchases decrease by $50 billion, while at the same time investment spending falls by $10 billion and the mpc=0.75.