

Practice: The economics of MAGA

Adapted from Midterm in 2016

Spring 2019

Revised: February 20, 2019

Simple question: What are the economic consequences of a tax cut? 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.**

- How would Trump's tax plan affect real GDP?
- What would be the impact of Trump's tax plan on investment and the real interest rate?
- How would Trump's tax plan change aggregate consumption? Does this allow us to "buy more stuff"? Why or why not?
- The way to think about investments is that they are purchase of capital goods are used in the future for production, i.e. more I leads to more K down the road. What is your prediction for real GDP in the future? Why?