

CHAPTER 4

AGGREGATE DEMAND AND FISCAL POLICY

1. If saving function is: $S = -25 + 0.4Y_D$, find consumption function?

2. An open economy has data as following:

$$\bar{C} = 40, \text{MPS} = 0,3; \bar{I} = 500; \bar{G} = 700; t=20\%$$

$$\bar{X} = 200; \text{MPM} = 0,2$$

Find:

- MPC
- Consumption function
- AE function
- The equilibrium output of the economy
- Trade balance

3. An open economy has data as following:

$$\bar{C} = 40, \text{MPS} = 0,4; \bar{I} = 600; \bar{G} = 700; t=20\%$$

$$\bar{X} = 300; \text{MPM} = 0,3$$

Find:

- MPC
- Consumption function
- AE function
- The equilibrium output of the economy

4. If saving function is: $S = -25 + 0.4Y_D$; $\bar{T} = 100$ and Government increases purchases 200. Find an increase in income?

5. A closed economy with Government has following data: $C = 100 + 0.5Y_D$; $I = 200$; $G = 100$. **Find:**

- The equilibrium output of the economy with $t = 10\%$
- Suppose the economy shifts from closed economy to open economy. Government imposes 10% tax, MPM is 0,2; exports are 100. Find new equilibrium output in the economy?

6. Suppose: $C = 500 + 0,6Y$; $I=300$; $G=400$; $X=300$; $M=0,1Y$; $T=0,25Y$. **Find:**

- a. MPS
- b. Economy's autonomous expenditure
- c. The equilibrium output of the economy.
- d. Expenditure multiplier

7. Suppose: $AE= 1500 + 0,5Y$; $T=0,25Y$; $I=300$; $G= 400$; $X=300$; $M=0,1Y$.

Find:

- a. Equilibrium output of the economy
- b. Consumption Function
- c. Marginal propensity to save
- d. Trade balance

8. Suppose: $C=300+0,6Y$; $I=500$; $G=400$; $X=300$; $M=0,1Y$; $t=25\%$. **Find:**

- a. AE function.
- b. Equilibrium output of the economy