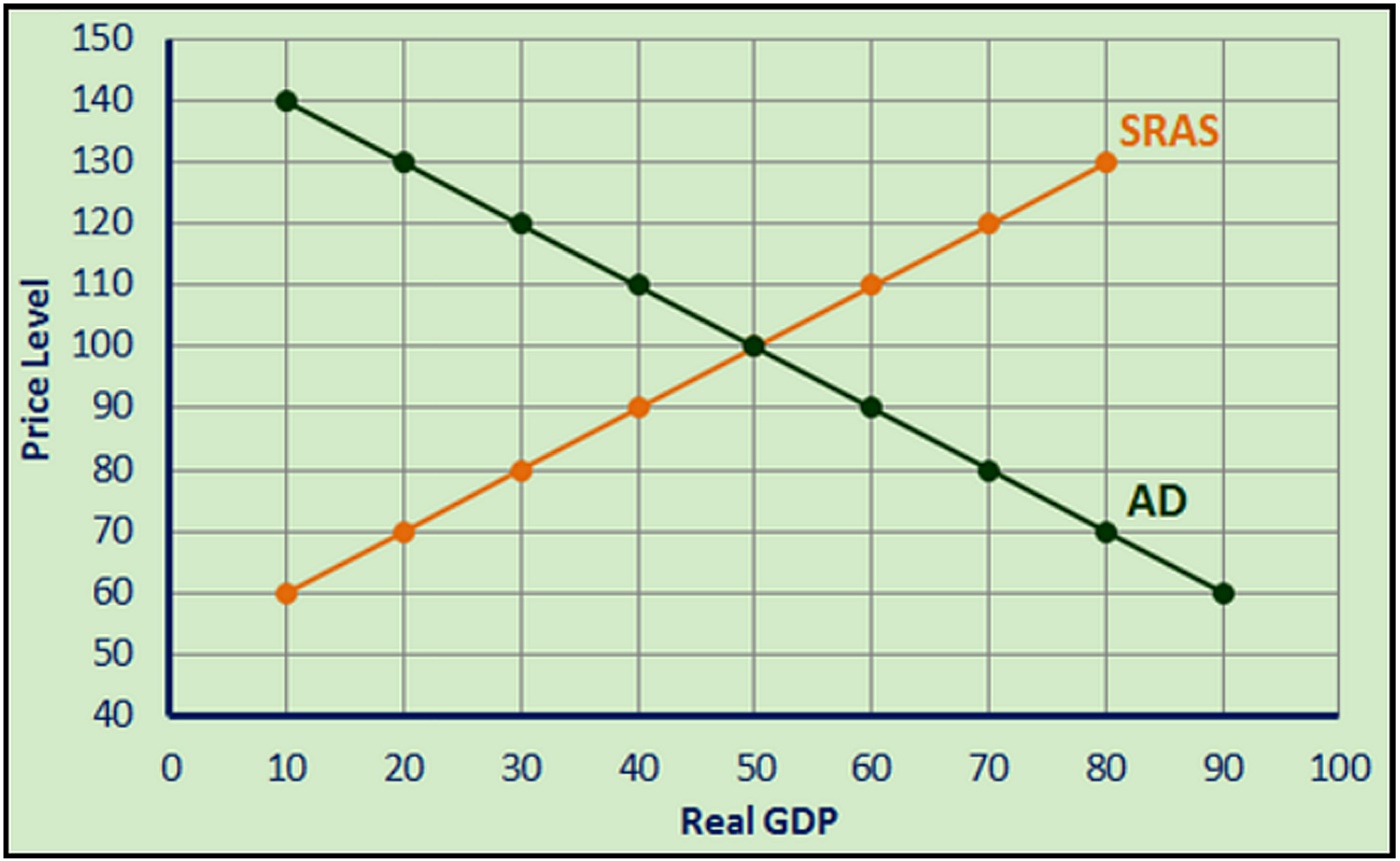
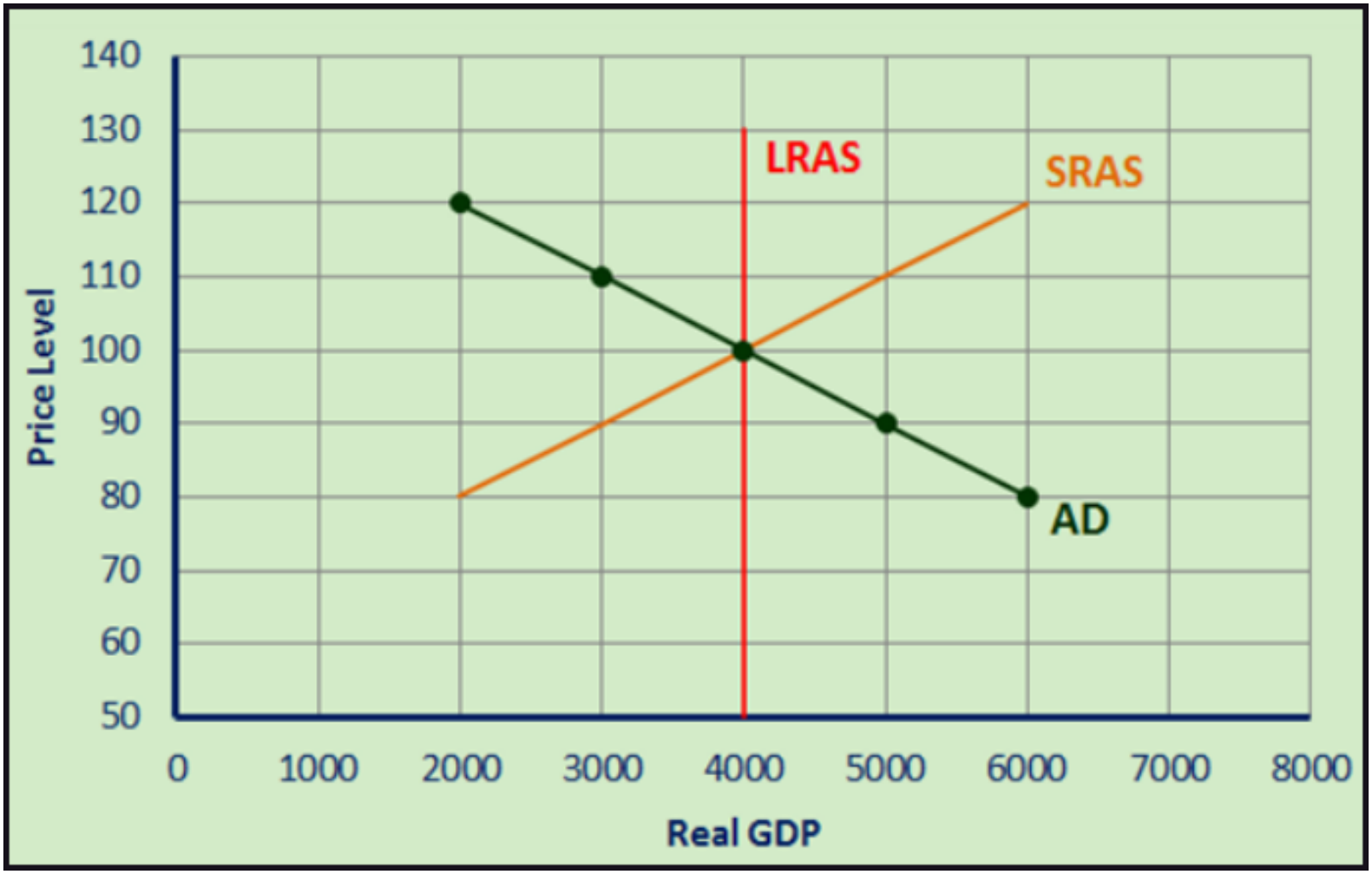
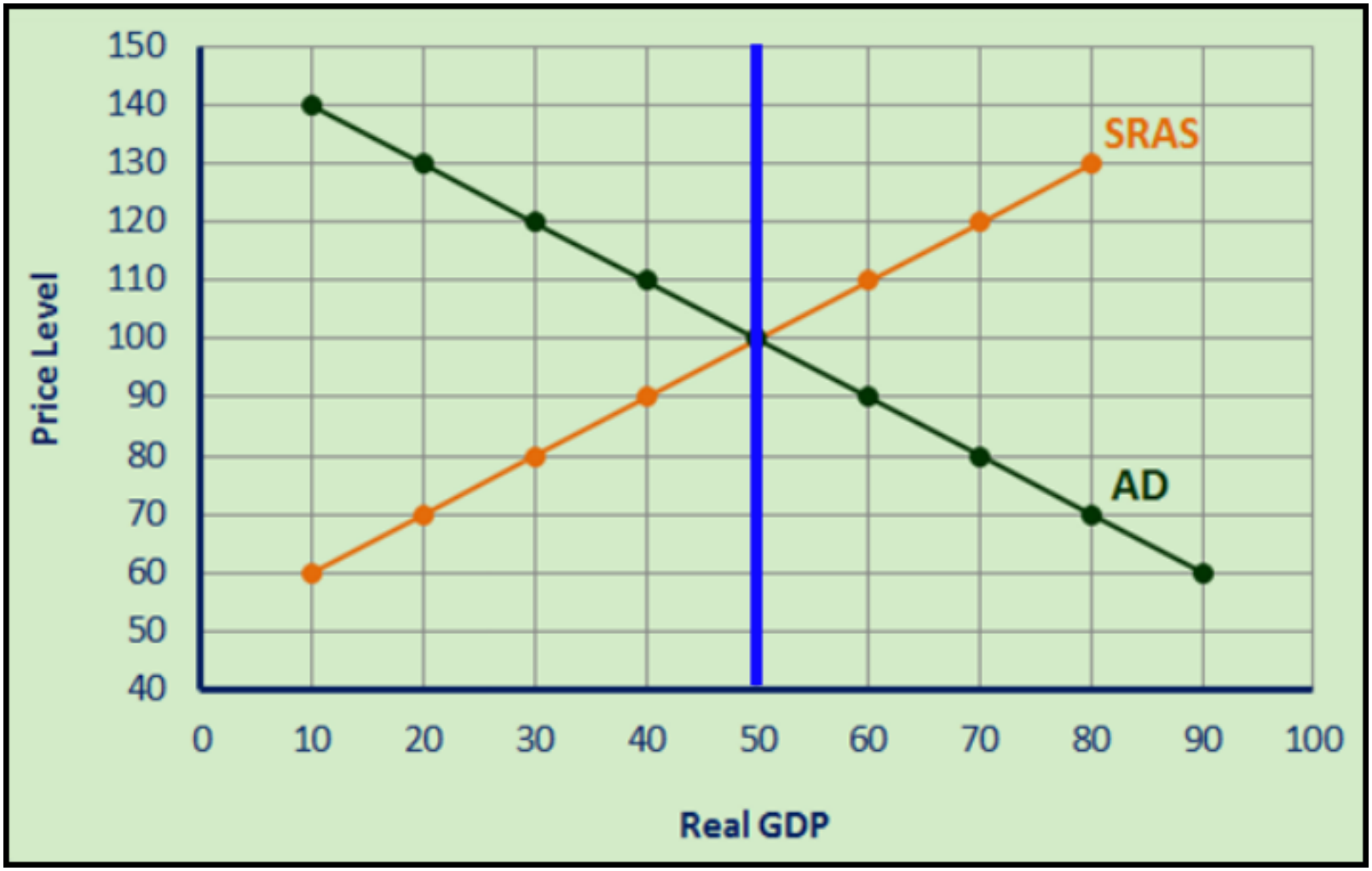
Problem 1. Currently $Y = 50$, $Y_p = 50$, and $P = 100$. The expenditure multiplier equals 5. All else the same, transfer payments TR increase by 10 units through deficit financing. How does the AD/AS graph change? (Assume there is no crowding out.)



Problem 2. What happens in the short run and the long run if there is a balanced budget increase in government spending of 2000 units?



Problem 3. Suppose the expenditure multiplier equals 5. Show the effect of a decrease in taxes by 10 units in both the short run and long run.



Problem 4. Credit risk increases. The effect of this event can be represented as

(a) a movement down and to the right along the AD function

(b) a movement up and to the left along the AD function

(c) a rightward shift in the AD function

(d) a leftward shift in the AD function

(e) none of the above