

Problem 1. The table below shows production and expenditure data for three countries.

	Country 1	Country 2	Country 3
C	12	10	16
I	4	8	6
G	10	12	7
EX	6	5	3
IM	2	4	6
Y	30	35	25

In Country 2,

- (a) the goods market is in equilibrium
- (b) there is excess demand for goods and services
- (c) there is excess supply of goods and services
- (d) there is an unplanned decrease in inventories
- (e) none of the above

Problem 2. Which of the following sequences of events is one of the explanations for the slope of the AD function?

- (a) $P \downarrow \implies \text{Real Wealth} \uparrow \implies C \uparrow \implies AD \uparrow \implies Y \uparrow$
- (b) $P \downarrow \implies \text{Real Wealth} \downarrow \implies C \uparrow \implies AD \uparrow \implies Y \uparrow$
- (c) $P \downarrow \implies \text{Real Wealth} \uparrow \implies C \downarrow \implies AD \uparrow \implies Y \uparrow$
- (d) $P \uparrow \implies \text{Real Wealth} \uparrow \implies C \uparrow \implies AD \uparrow \implies Y \uparrow$

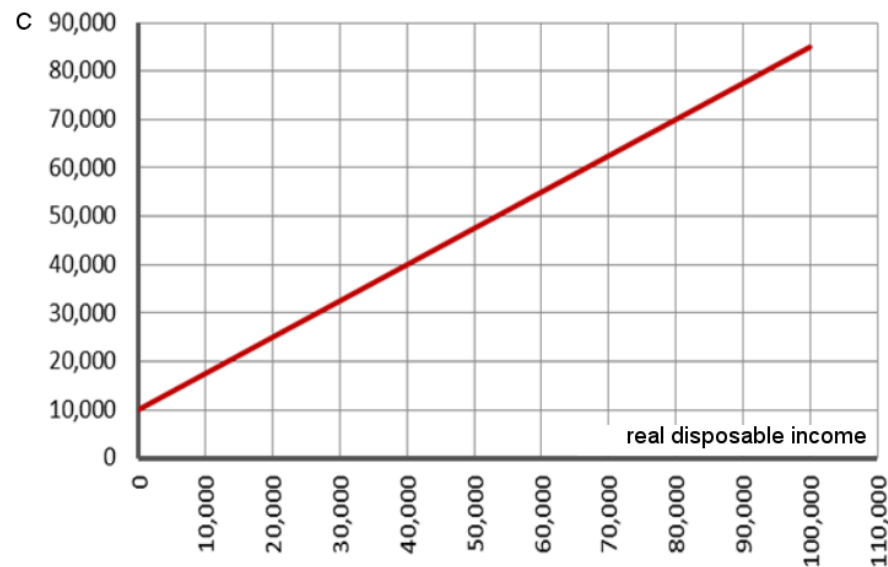
Problem 3. Which of the following sequences of events is one of the explanations for the slope of the AD function?

- (a) $P \downarrow \implies (EX - IM) \downarrow \implies AD \uparrow \implies Y \uparrow$
- (b) $P \uparrow \implies (EX - IM) \uparrow \implies AD \uparrow \implies Y \uparrow$
- (c) $P \downarrow \implies (EX - IM) \uparrow \implies AD \uparrow \implies Y \uparrow$
- (d) $P \uparrow \implies (EX - IM) \downarrow \implies AD \uparrow \implies Y \uparrow$

Problem 4. Which of the following sequences of events is one of the explanations for the slope of the AD function?

- (a) $P \downarrow \implies \text{Demand for Money} \uparrow \implies R \uparrow \implies AD \uparrow \implies Y \uparrow$
- (b) $P \downarrow \implies \text{Demand for Money} \downarrow \implies R \downarrow \implies AD \uparrow \implies Y \uparrow$
- (c) $P \downarrow \implies \text{Demand for Money} \downarrow \implies R \uparrow \implies AD \uparrow \implies Y \uparrow$
- (d) $P \uparrow \implies \text{Demand for Money} \uparrow \implies R \uparrow \implies AD \uparrow \implies Y \uparrow$

Problem 5. The graph shows a linear consumption function. What is the marginal propensity to consume, MPC , for this country? What is the marginal propensity to save, MPS ?



Problem 6. In a country the Keynesian consumption function is of the form:

$$C = 12,000,000 + 0.80Y_d.$$

If in this country, $Y = 100,000,000$, $TX = 30,000,000$, and $TR = 10,000,000$. Then consumption equals _____ units.

Problem 7. Define the following terms:

- (a) fiscal policy
- (b) monetary policy
- (c) expansionary policy
- (d) contractionary policy

Problem 8. Reconsider problem 5 where $MPC = 0.75$. If the government increases its spending by \$100, by how much will AD shift?

Problem 9. Reconsider problem 5 where $MPC = 0.75$. Suppose taxes increase by \$100. By how much will AD shift?

Problem 10. Reconsider problem 5 where $MPC = 0.75$. Suppose the government undergoes a balanced-budget increase in spending of \$100. By how much will AD shift?