ECO 181 Summer 2023 - Homework #03

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Q3.1 Assume the following information for an imaginary, closed economy. GDP = \$170000, Taxes = \$23000, Government Purchases = \$31000, National Saving = \$17000. This economy's government is running a budget _____ [surplus/deficit] of _____.

Q3.2 In a closed economy, if Y and T remained the same, but G rose and C fell but by less than the rise in G, what would happen to private and national saving? Private saving would _____. National saving would _____[rise/fall].

Q3.3 According to the following information answer the questions.

Macroeconomic Indicators: Country A

Household final consumption: \$40.3 billions

Government final consumption: \$15.7 billions

Budget balance: \$-3.8 billions

Total Investment: \$14.4 billions

Exports of goods and services: \$18.6 billions

Imports of goods and services: \$16.5 billions

a) Calculate Country A's net capital inflow.

b) Calculate Country A's private savings.

Q3.4 Assume a government provides a large tax credit for individuals who save more money in banks. The demand curve of the loanable funds market will _____[remains same/ shifts to left/ shifts to right]. The supply curve of the loanable funds market will _____[remains same/ shifts to left/ shifts to right].

Q3.5 Assume a government enters the war and pursues more deficit spending to fund the costs of the conflict. The demand curve of the loanable funds market will _____[remains same/ shifts to left/ shifts to right]. The supply curve of the loanable funds market will ______[remains same/ shifts to left/ shifts to right].

Q3.6 If the real interest rate increases from 3% to 5%

A. The nominal interest rate would decrease.

B. The demand for loanable funds curve would shift to the right.

C. There will be movement up along the existing demand curve for loanable funds.

D. The supply of loanable funds would shift to the right.

Q3.7 Country A's government has increased its spending this year, leading to a growing budget deficit. How will this growing budget deficit affect the economy? Discuss the interest rates, private investment, and aggregate expenditure.

Q3.8 The nominal interest rate is 5 percent and the inflation rate is 2 percent. What is the real interest rate?

Q3.9 Katarina puts money into an account. One year later she sees that she has 6 percent more dollars and that her money will buy 4 percent more goods. The nominal interest rate was ______ percent and the inflation rate was ______ percent.

Q3.10 Kari received a raise in salary from $72,000/yr to $77,000/yr. Her savings increased from $21,000 to $23,000 per year. Calculate her MPC.

Q3.11 If MPC is 0.5 and the government increases spending by $3 billions, what is the change in real GDP?

Q3.12 According to Figure 1: Q3.12, suppose the multiplier is 5 and the economy is currently at point A. To stabilize output at $1000, the government should ______ purchases by $ ______.

Q3.13

According to Figure 1: Q3.13, suppose the economy begins at point A. Decreases in what four variables could result in a movement to point D?

Q3.14 According to Figure 1: Q3.14, Suppose the economy starts at P3 and Y2. If there is a decrease in government purchases, identify the price and output levels that the economy would move to in the short run.

Q3.15 According to Figure 1: Q3.15, Suppose the economy starts at P3 and Y2. Explain how government purchases would need to change to move the economy to P2 and Y1. What about taxes?

Q3.16 Suppose the economy is in long-run equilibrium. If there is a sharp increase in the minimum wage as well as an increase in taxes, then in the short run, real GDP will

A. rise and the price level might rise, fall, or stay the same. In the long run, the price level might rise, fall, or stay the same but real GDP will be unaffected.

B. fall and the price level might rise, fall, or stay the same. In the long run, the price level might rise, fall, or stay the same but real GDP will be unaffected.

C. rise and the price level might rise, fall, or stay the same. In the long run, the price level might rise, fall, or stay the same but real GDP will be lower.

D. fall and the price level might rise, fall, or stay the same. In the long run, the price level might rise, fall, or stay the same but real GDP will be lower.

Q3.17 Money, such as gold, with some intrinsic value is called ______. Money with no intrinsic value is called ______.

Q3.18 The Fed ______ bonds when it conducts an open-market purchase. This action ______ the money supply.

Q3.19 Suppose a bank has $3,000 in reserves, $25,000 of deposits, and a 10 percent reserve requirement. What is the amount of excess reserves?

Q3.20 Which of the following is an automatic stabilizer?

A. military spending

B. spending on public schools

C. unemployment benefits

D. spending on the space shuttle

1 Figures

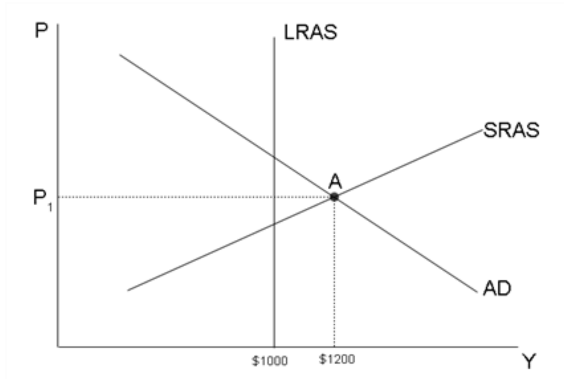

Figure 1: Q3.12

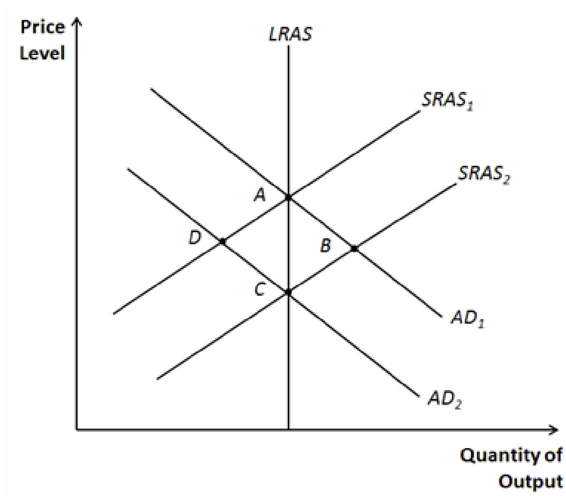

Figure 2: Q3.13

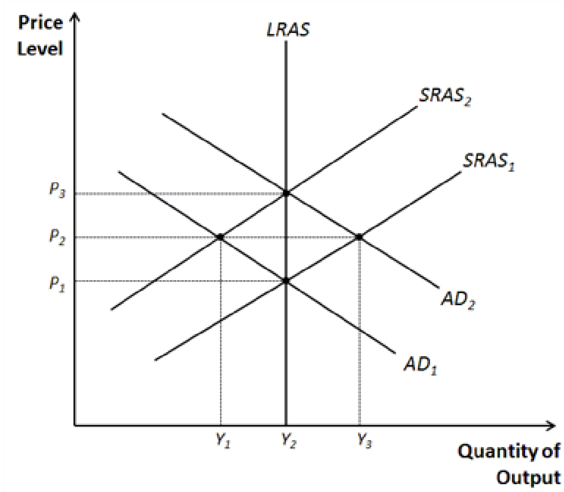

Figure 3: Q3.14

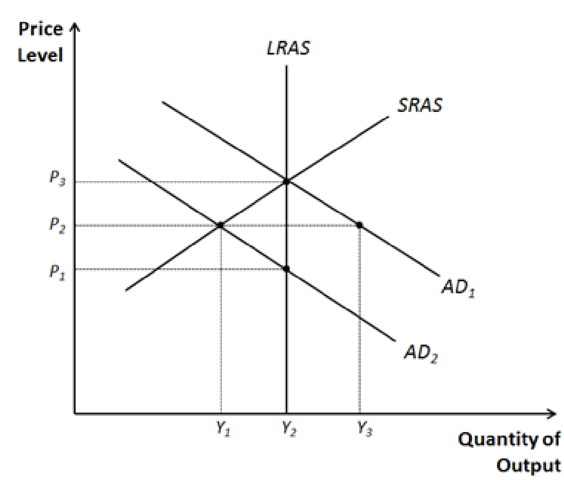

Figure 4: Q3.15