

Name &amp; SID:

Date:

Assumptions are critical in macroeconomics. Different assumptions change dramatically your answers. Assume the following conditions for the following questions:

- Closed economy ( $NX=0$ )
- Prices are fixed (inflation=0)
- Nominal and real interest rates are fixed
- Planned investment is autonomous of interest rates
- $Y$  refers to real GDP (not nominal)
- $T = \text{Net Taxes} = TA-TR$
- Full-employment GDP =  $Y_f = \$10,000$

Please use the following relationships and data to answer the questions. If the question asks you to calculate, then make sure you have a number as an answer.

$$C = 40 + .95Y_d$$

$$I (\text{planned}) = 300$$

$$G = 95$$

$$T = TA-TR = 100$$

$$NX = 0$$

1. Calculate the equilibrium  $Y$ .

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2. Sketch the Keynesian-cross for this economy. Label the equilibrium output,  $Y_1$ . Also label the full-employment output,  $Y_f$ .

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3. Suppose full-employment output ( $Y_f$ ) is at \$10,000, but our current economy is at  $Y_1$ . How much do we need to increase government spending in order to reach  $Y_f$ ? You can only raise government spending. Your proposal must have a specific dollar amount.