

S2 f) (4 points) Derive a new expression for the LM curve. Please show all work.

$$\frac{400}{0.35} = 85 + .5Y - 1000r$$

$$r = -.085 + .0005Y$$

S2 g) (4 points) In the long run, how much investment has been crowded out? Please show all work.

@ PTA $I = 50 - 500(.01)$

$$I = 45$$

@ PTC $I = 50 - 500(.04)$

$I = 30 \rightarrow$ so 15 unit of I has been crowded out

Label this long run equilibrium as point C in all three of your diagrams.

Also \rightarrow 15 units of C has been crowded out

$$\begin{array}{r} G \text{ replaced } 15 I \\ \underline{15 C} \\ 30 \end{array}$$

This is the Barro argument
 The fall in $C+I =$ Rise in G
 so Y stays constant
 \rightarrow Barro Gov. Spending multiplier = 0!
 zero.

