

Name &amp; SID:

Date:

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Assumptions are critical in macroeconomics. Different assumptions change dramatically your answers. Read the assumptions carefully.

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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.

$$C = 40 + .75Y_d$$

$$I (\text{planned}) = 100$$

$$G = \$100$$

$$T = .1Y$$

$$EX = 100$$

$$IM = .1Y$$

1. Assume a closed economy ( $NX=0$ ). Calculate the equilibrium output ( $Y_1$ ).

2. Sketch the Keynesian-cross for this closed economy. Label  $Y_1$ .

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3. What is the government-spending multiplier for this closed economy? Write the general equation and calculate the multiplier. *This is not in the textbook or lecture.*

4. Assume an **open economy**. Calculate the new equilibrium output ( $Y_2$ ).

5. Sketch the Keynesian-cross for this open economy in problem 2. Label  $Y_2$ .

