

Intermediate Macroeconomics I

ECON 2102 A

Homework assignment #1

Selected exercises for homework assignment #1:

- Exercises 1, 4 and 6 of Problem Set 1 (available in cuLearn) (30%)
- Exercises 9, 10 and 11 of Problem Set 2 (available in cuLearn) (30%)
- Keynesian cross exercise: (40%)

Some economy is well described by the Keynesian cross model. The autonomous consumption is 19 units of output, the marginal propensity to consume is 0.9, planned investment is 55 units of output, government spending is 75 units of output. The goods market is currently in equilibrium for an amount of income equal to 950 units.

- i) Find the current taxes (T) and the public deficit ($G-T$). Show the goods market equilibrium graphically, plotting the planned expenditure function and the equilibrium condition.

The government wants to design a tax policy that raises demand and moves the economy to its full capacity estimated at $Y=1000$ units of output produced.

- ii) Obtain the amount of taxes required to achieve full-capacity output in the goods market equilibrium (*Hint: you should find a tax cut*). Show the results in the graph and discuss how the economy would transit from the initial equilibrium at $Y=950$ to the new equilibrium with $Y=1000$. Obtain the numerical effects on both consumption and the public deficit. How much is the tax multiplier (dY/dT)?

Due on May 21st (homeworks should be handed in to the instructor individually at the beginning of class)