

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. The spreadsheets will be turned in via an attachment to an e-mail sent to wcsaplar@bethanywv.edu. The only place your name should appear on the electronic file is on a page with nothing else on it. Failure to follow these directions will cost you 1 point on the assignment.

1) Suppose the economy is described by $C = 100 + 0.8(Y_{-1} - T)$, $T = 0.25Y$, $I = 0.2(C - C_{-1})$, $G = 800$, $X - M = 300 - 0.4Y$.

A) (20 points) Find the short-run multiplier. Show all work.

B) (15 points) Use the spreadsheet to determine the baseline, long-run level of GDP if last year's GDP was 2000 and Y_{-2} is 1000. Plot the time path of GDP. Is the time path of GDP a damped oscillation, explosive oscillation, monotonic convergence, or monotonic explosion. Explain your logic.

C) (15 points) Use the spreadsheet to determine the long-run level of GDP if last year's GDP was 2000, Y_{-2} is 1000, and G goes to 810 for one period. Plot the time path of GDP. What is the long-run multiplier? Explain your logic.

2) (20 points) In Friedman's money demand equation, the price level and the expected changes in prices have opposite effects upon the demand for money. What are the effects and why are they different?

3) (15 points) Why do you think the velocity of M1 has become unstable? Hint: The velocity of M2 has slightly grown, but is not unstable.

4) (15 points) Last semester, we assumed that the money supply was vertical. Why did we assume that? Why is that false?