

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. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

- 1) (30 Points) Illustrate an increase in government spending on the 45° diagram, a.k.a, the Keynesian Cross diagram. **Given your diagram**, what do you estimate to be the size of the government spending multiplier? Explain your logic.

- 2) (15 points each) The government spending multiplier makes certain assumptions about how the other variables respond to the additional spending. For each item below, state what is assumed about it. Determine what would happen to the size of the multiplier if that assumption is relaxed. Explain your logic.
 - A) Net Exports
 - B) Income Tax
 - C) Prices

- 3) (25 points) Illustrate an increase in the price level on the 45° diagram, a.k.a, the Keynesian Cross diagram. Explain why the curve(s) moved as drawn.