Wilf Csaplar Jr.   Economics 162   Homework #8   **Due Thursday 11/8**

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (20 points) Draw the Keynesian Cross Diagram, a.k.a., the 45° diagram. Illustrate the effect of an increase in the interest rate on the graph. Explain why the curve(s) moved as drawn.

2) (20 points) Draw the Keynesian Cross Diagram, a.k.a., the 45° diagram. Illustrate the effect of an increase in the marginal propensity to consume on the graph. Explain why the curve(s) moved as drawn.

3) (25 points) Draw the Keynesian Cross Diagram, a.k.a., the 45° diagram. Illustrate the effect of an increase in government spending on the graph. Explain why the curve(s) moved as drawn. Given your diagram, estimate the size of the government spending multiplier using the definition of it. Briefly explain how you reached the conclusion.

4) (15 points) What is *crowding out*? If it occurs, then what will happen to the size of the government spending multiplier? Explain your logic.

5) (10 points each) When we estimated the size of the government spending multiplier, we assumed *ceteris paribus*. However, some other variables will change. Explain how the variable will change, how that change will affect the size of the government spending multiplier and why it will have that effect. Answer each part in a separate paragraph.
A) Tax revenue
B) Prices