Wilf Csaplar Jr.   Economics 162   Homework #7   Due **Monday** 04/14

Place your name on the back of this sheet of paper and nowhere else. Staple your answers 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 each) Draw the Keynesian Cross/45° diagram. Illustrate each event on separate diagrams. Explain why the curve(s) moved as drawn and what happens to GDP.
A) Interest rates drop.
B) The MPC increases.

2) (25 points) Illustrate an increase in government spending on the Keynesian Cross/45° diagram. Explain why the curve(s) moved as drawn. Given your diagram, what is the approximate size of the government spending multiplier? Explain your logic.

3) (10 points) When we derived the government spending multiplier, we made many assumptions. Name one of them and explain how relaxing that assumption would affect the size of the multiplier.

4) (25 points) Draw the LRAS/SRAS/AD diagram for a country in a recessionary gap. State how you know you have the correct type of gap. What type of fiscal policy should be done? Explain why you chose that policy and how it affects the curves.