

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) Illustrate the following events on the 45° diagram for the USA. Use separate diagrams for each part. Explain why the curves moved as drawn.

- A) The government spends more.
- B) The MPS increases.
- C) The economy of Canada improves.
- D) The income tax increases.

2) (10 points) Given the diagram in your answer to Question #1A, what is the size of the government spending multiplier? How did you reach that conclusion?

3) (10 points) Do you think the income tax would do to the size of the government spending multiplier? Explain your logic.