

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) (25 points) Illustrate an increase in the government spending on the Keynesian Cross, a.k.a.  $45^\circ$  diagram. Explain why the curve(s) moved as drawn. Given your diagram, what would you estimate to be the size of the government spending multiplier? Explain your logic.
- 2) (20 points) Illustrate an increase in the marginal propensity to consume on the Keynesian Cross, a.k.a.  $45^\circ$  diagram. Explain why the curve(s) moved as drawn.
- 3) (20 points) Illustrate an increase in the interest rate on the Keynesian Cross, a.k.a.  $45^\circ$  diagram. Explain why the curve(s) moved as drawn.
- 4) (20 points) Illustrate an increase in the value of the US\$ on the foreign exchange market, on the Keynesian Cross, a.k.a.  $45^\circ$  diagram. Explain why the curve(s) moved as drawn.
- 5) (15 points) The size of the multiplier in the real world is less than the formula would predict if the MPC is 90%. What is the economic reason for this?