Wilf Csaplar Jr.   Economics 162   Homework #7   Due **THURSDAY** 4/8

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 the effects of an increase in government spending on the Keynesian Cross, a.k.a., 45° diagram. Explain why the line(s) moved as drawn. <u>Given your diagram</u>, what is the size of the government spending multiplier? Explain how you reached that conclusion.

2) (20 points) Illustrate the effects of an increase in the value of the dollar on the foreign exchange on the Keynesian Cross, a.k.a., 45° diagram. Explain why the line(s) moved as drawn.

3) (20 points) Illustrate the effects of an increase in the MPC on the Keynesian Cross, a.k.a., 45° diagram. Explain why the line(s) moved as drawn.

4) (20 points) Illustrate the effects of an increase in the interest rate on the Keynesian Cross, a.k.a., 45° diagram. Explain why the line(s) moved as drawn.

5) (15 points) When we estimated the government spending multiplier, we estimated it would be about 10. That number is too large. Give two reasons why it is too large. Explain your logic.