

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, a.k.a. 45° diagram. Illustrate the effect of an increase in the income tax. Explain why the curve(s) moved as drawn. What happens to the equilibrium level of GDP?
- 2) (20 points) Draw the Keynesian Cross, a.k.a. 45° diagram. Illustrate the effect of an increase in interest rates. Explain why the curve(s) moved as drawn. What happens to the equilibrium level of GDP?
- 3) (25 points) Draw the Keynesian Cross, a.k.a. 45° diagram. Illustrate the effect of an increase in government spending. Explain why the curve(s) moved as drawn. What happens to the equilibrium level of GDP? Given your diagram, what is the size of the government spending multiplier? Explain your logic and show all calculations.
- 4) (20 points) Draw the Keynesian Cross, a.k.a. 45° diagram. Illustrate the effect of an increase in the marginal propensity to consume. Explain why the curve(s) moved as drawn. What happens to the equilibrium level of GDP?
- 5) (15 points) When we estimated the government spending multiplier, a.k.a. the multiplier, a.k.a. the autonomous expenditure multiplier, we made many assumptions. What did we assume about tax revenue? If we relax that assumption, then how will that affect the size of the multiplier? Explain your logic.