

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) (10 points) Suppose a person's consumption function is given by  $C = 300 + .8(Y-T)$ . If that person has an income of \$10,000.00, what are their MPC, MPS, APC, and APS? Show all work and if there is no work, then state how you reached your conclusion.
- 2) (25 points) Draw the Keynesian Cross, a.k.a.  $45^\circ$  diagram. Illustrate the effects of an increase in government spending. Explain why the curve(s) moved as drawn. Given your diagram, approximately, what is the value for the government spending multiplier? Explain how you determined that number.
- 3) (20 points) Draw the Keynesian Cross, a.k.a.  $45^\circ$  diagram. Illustrate the effects of an increase in the Canadian GDP. Explain why the curve(s) moved as drawn.
- 4) (20 points) Draw the Keynesian Cross, a.k.a.  $45^\circ$  diagram. Illustrate the effects of an increase in the MPS. Explain why the curve(s) moved as drawn.
- 5) (10 points) If the MPC was .8, then how much is the government spending multiplier? Explain how you reached the conclusion and show all work. If the government increased its spending by \$100, how much would GDP increase? How did you reach that conclusion?
- 6) (15 points) In answering Question #5, you implicitly made some assumptions. What did you assume about taxes? If we relaxed that assumption (stop making that assumption), what would happen to taxes and how would that affect the size of the government spending multiplier? Explain your logic.