Wilf Csaplar Jr.   Economics 162   Homework #6   **Due Thursday 4/5**

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 10 points. 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) Draw the Keynesian Cross, a.k.a. 45° diagram. Illustrate the effects of an increase in government spending. Explain why the curve(s) moved as drawn. <u>Given your diagram</u>, what is the size of the government spending multiplier? Show all work and briefly explain how you reached your conclusion.

2) (15 points each) Answer each question in separate paragraphs, otherwise I will penalize you for not following directions. When we estimated the government spending multiplier to be 10, we made several assumptions. For each of the variables below, what did we assume about that variable? If we relaxed that assumption, then what would happen to the size of the multiplier? Explain your logic.
A) Tax revenue
B) Prices

3) (20 points) Draw the SRAS/LRAS/AD diagram with the "modern SRAS." Illustrate the effects of increase in government spending. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?

4) (20 points) Draw the SRAS/LRAS/AD diagram with the "modern SRAS." Illustrate the effects of increase in amount of capital. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?

5) (5 points) What is wrong with the statement, "The AD curve slopes down because when prices go up, people cannot afford as much, so they demand less.

Remember to see your advisor in the next two weeks so you can start to register the week of 4/16. See your advisor even if you have a hold. That way, once the hold is removed, you will be able to register. If you do not register by 4/20, you will have to pay a $150 late fee.