Wilf Csaplar Jr.        Economics 202        Homework #6        **Due Friday 3/19 by 12:00 PM**

Do NOT write your name anywhere. (Canvas will tell me who turned in the assignment.)  All answers must be typed, except for mathematics and graphs.  Take pictures of your written answers and use your own software or to create a single PDF size A4 or 8.5" x 11".  At the top of my webpage, I list several online sources which will convert pictures to pdfs, merge pdfs, and resize them.  However, Apple phones may require using CamScanner before using the online sources  Failure to follow these directions will cost you 10 points.

1) (25 points) Draw the Keynesian Cross, a.k.a the 45° 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 size of the government spending multiplier?  Explain how you reached the conclusion.  Use the more accurate method, i.e., the definition to calculate it.  Do not use the formula we developed.

2) (15 points each) When we calculated the government spending multiplier, we mad several assumptions.  For each of the following, what did we assume?  If we relax that assumption, what happens to the size of the multiplier?  Explain your logic.  Answer each part in separate paragraphs.
A) tax revenue
B) imports

3) (10 points) Suppose the MPC was .8.  How much would the government spending multiplier be?  Show all work.  If the government wanted to increase GDP by $1000, then how much would they have to spend?  Show all work.

4) (25 points) For this question, draw an upward-sloping SRAS curve.  (You will learn the real shape the day this is due.)  Draw the SRAS/LRAS/AD diagram.  Illustrate the effects of an increase in government spending.  Mark where the economy ends at.  Explain why the curve(s) moved as drawn and how you found the point.  What happens to GDP, inflation, and the unemployment rate?  Briefly state how you reached that conclusion.

5) (10 points) Students regularly make statements like, "When prices go up, people cannot afford to buy as much.  That is why AD slopes down."  Why is that a wrong argument?  Explain your logic.