Wilf Csaplar Jr.   Economics 302   Homework #4   Due 2/27

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

1) (14 points) Explain the equation for the IS curve, $Y = f(i, G)$.

2) (20 points) Illustrate an increase in government spending on the IS/LM diagram. Explain why the curve(s) moved as drawn. What potential problem do you see on the graph? Explain why it is a problem.

3) (21 points) Suppose that $C = 200 + 0.8(Y-T)$, $I = 300 - 1200i$, $G = 500$, $X = 400$, $M = 0.16Y$, and $T = 0.3Y$. Derive the equation for the IS curve. Briefly explain how you got the equation.

4) (45 points) Illustrate an increase in the marginal income tax rate on the IS/LM, the AS/AD, and the Keynesian Cross (45°) diagrams. For every line that moves, explain why it moved as drawn.