

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) (20 points) Draw a 45° diagram, a.k.a. the Keynesian Cross. Illustrate the effects of an increase in the tax rates. Explain why the curve(s) moved as drawn.

2) (20 points) Draw a 45° diagram, a.k.a. the Keynesian Cross. Illustrate the effects of an increase in the interest rates. Explain why the curve(s) moved as drawn.

3) (20 points) Draw a 45° diagram, a.k.a. the Keynesian Cross. Illustrate the effects of a decrease in the MPC. Explain why the curve(s) moved as drawn.

4) (25 points) Draw a 45° diagram, a.k.a. the Keynesian Cross. Illustrate the effects of an increase in government spending. Explain why the curve(s) moved as drawn. Given your diagram, what is the estimate of the size of the government spending multiplier? Show all work and briefly explain how you got your answer.

5) (15 points) In an article by the Brookings Institute last January, they said the CBO estimates the government spending multiplier varies from .5 to 2.5. What do the two numbers mean? Explain how it can be less than 1 and how it can be greater than 1.

<https://www.brookings.edu/blog/up-front/2021/01/28/the-macroeconomic-implications-of-bidens-1-9-trillion-fiscal-package/>