Wilf Csaplar Jr. Economics 202 Homework #7 **Due Thursday 3/24 by 9:30 AM**

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) (15 points) According to the first paragraph of the Introduction of the paper linked below, what is the Federal Reserve's estimate of the size of the government spending multiplier? (The rest of the article will be too hard for you to understand.) What was our estimate of the size of the multiplier? There are several assumptions we make which cause our estimate of the multiplier to not be correct. What is one of them? Explain how that would affect the size of the government spending multiplier.
https://www.richmondfed.org/-/media/richmondfedorg/publications/research/working_papers/2017/pdf/wp17-15.pdf

2) (25 points) Draw the Keynesian Cross, a.k.a. 45° Diagram. Illustrate the effect of an increase in government spending. Explain why the curve(s) moved as drawn. Given your diagram, what is your estimate of the size of the government spending multiplier? Use the more accurate method. Briefly explain how you got the number including showing all work.

3) (10 points) If the MPC was 0.9 and the government wanted to increase the GDP by $1000, then how much would they have to increase spending? Show all calculations and briefly explain what you did. (Implicitly, we are ignoring the problems mentioned in Question #1.)

4) (15 points) Draw the LRAS curve. Explain why it takes its shape.

5) (15 points) Draw the AD curve. Explain why it takes its shape.

6) (10 points) What is wrong with the statement, "When prices are up, people cannot afford to buy as much. That is why the AD curve slopes down."