

Econ 331 – Intermediate Macroeconomics - Homework N3
5.5 points

NAME _____

N1. (3 points) For a specific model where the consumption function is given as $C = 100 + 0.75Y$, while investment is 60, with no government purchases and no net exports,

- a) find the equilibrium level of income
- b) find the level of savings
- c) if, for some reason, output is at the level of 700, what will the level of unplanned inventory be?
- d) if I rises to 80, what will the effect be on the equilibrium income?
- e) what is the value of the multiplier, α , here?
- f) draw a diagram indicating the equilibrium in (a).

N2. (0.5 points) Suppose the consumption function in problem N1 changes to $C = 100 + 0.9Y$, while I remains at 60 and there is no government purchases and no net exports:

- a) is the equilibrium level of income higher or lower than it was in problem N1(a)? Calculate the new equilibrium level, Y' , to verify this.

N3. (2 points) Now let us suppose we have full blown economy with C, I, G , but no NX :

$$C = 50 + 0.8Y$$

$$I = 70$$

$$G = 200$$

$$TR = 100$$

$$t = 0.2$$

- a) calculate the equilibrium level of income and the multiplier in this model.
- b) calculate the budget surplus, BS.
- c) suppose t increases to 25%. What is the equilibrium income now? The new multiplier?
- d) if $t = 100\%$, why is the multiplier 1?