

Econ 231 – Macroeconomics - Homework N5.

4 points total.

PRINT YOUR NAME _____

N1. (2 points) Derive the Aggregate Demand curve labeling all curves and lines properly. Give a short explanation of the derivation.

N2 (1 point). Consider an economy in which the consumption function takes the following simple form:

$$C = 250 + 0.9DI$$

And in which the Investments (I) is always \$1100 and Net Exports are always -\$80. Government Expenditure is \$1,400, and taxes are fixed at \$1,000. Find the equilibrium level of GDP (*Hint: $DI = Y - T$*). **Show all required calculations.**

N3 (1 point). Keep everything the same as in **Question N2** *except* change Government Expenditure to 1,200 (say that the government has decided to cut its own expenditure to \$1,200). Use the equilibrium condition $Y = C + I + G + (X - IM)$ to find the new equilibrium level of GDP. Compare your answer to the answer to **Question N2**. What can you say about the multiplier? (Give a number for the multiplier). **Show all required calculations.**