2015

1.Assume that the United States economy is operating below full employment.

(d)Assume that the marginal propensity to consume is 0.8 and the value of the recessionary gap is $300 billion.

(i)If the government changes its spending without changing taxes to eliminate the recessionary gap, calculate the minimum required change in government spending.

(ii)If the government changes taxes without changing government spending to eliminate the recessionary gap, will the minimum required change in taxes be greater than, smaller than, or equal to the minimum required change in government spending in part (d)(i) ? Explain.

2014

1.Assume that the United States economy is currently operating below the full-employment level of real gross domestic product with a balanced budget.

(c)If the marginal propensity to consume is equal to 0.75, calculate the maximum possible change in real gross domestic product that could result from the $100 billion increase in government spending.

(f)Now assume that instead of financing the $100 billion increase in government spending by borrowing, the United States government increases taxes by $100 billion. With this equal increase in government spending and taxes, will the real gross domestic product increase, decrease, or remain the same? Explain.

2008

1.Assume the United States economy is operating at full-employment output and the government has a balanced budget. A drop in consumer confidence reduces consumption spending, causing the economy to enter into a recession.

(c)Assume that current real gross domestic product falls short of full-employment output by $500 billion and the marginal propensity to consume is 0.8.

(i) Calculate the minimum increase in government spending that could bring about full employment.

(ii)Assume that instead of increasing government spending, the government decides to reduce personal income taxes. Will the reduction in personal income taxes required to achieve full employment be larger than or smaller than the government spending change you calculated in part (c)(i) ? Explain why.