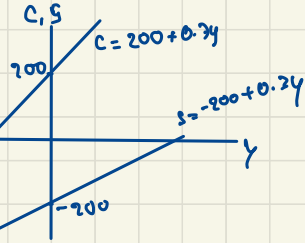


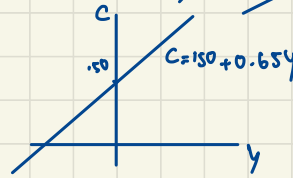
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1). To increase their consumption as their incomes, increase, but not by as much as the increase in their income.  $C = C_0 + c \cdot Y$ ;  $C = MPC$

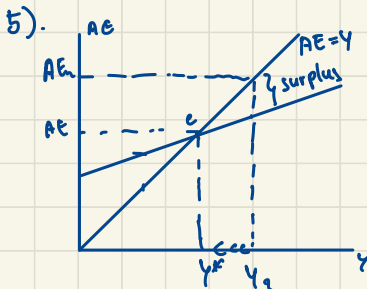
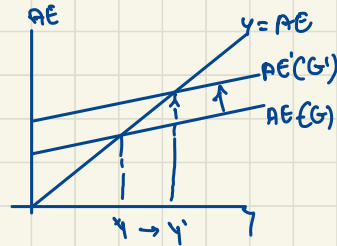
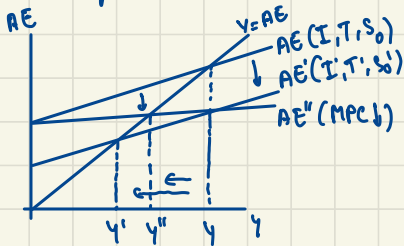
2).  $MPC + MPS = 1 \Rightarrow MPC = 0.7 \Rightarrow C = 200 + 0.7Y$   
 $Y = S + C$   
 $\Rightarrow S = Y - C$   
 $= Y - (200 + 0.7Y) \Rightarrow S = -200 + 0.3Y$



3).  $Y = S + C \Rightarrow C = Y - S$   
 $C = Y - (-150 + 0.35Y)$   
 $= 150 + 0.65Y$



- 4). - All firm managers decide to buy fewer machine:  $I \downarrow \Rightarrow AE \downarrow \Rightarrow Y^* \downarrow$   
 - The government decide to build more roads:  $G \uparrow \Rightarrow AE \uparrow \Rightarrow Y^* \uparrow$   
 - The citizen decide to save more at all income level:  $S \uparrow \Rightarrow AE \downarrow \Rightarrow Y^* \downarrow$   
 - The citizen decide to save large proportion of income:  $MPS \uparrow \Rightarrow MPC \downarrow \Rightarrow AE \downarrow \Rightarrow Y^* \downarrow$   
 - The government decides to raise tax:  $T \uparrow \Rightarrow AE \downarrow \Rightarrow Y^* \downarrow$



Surplus: inventories accumulate  $\rightarrow$  decrease production  $\rightarrow$  adjust the new equilibrium.

6. Find  $S$

$$Y = C + S$$

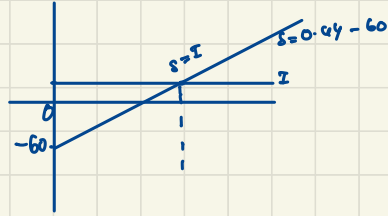
$$S = Y - C$$

$$= Y - 60 - 0.6Y$$

$$= -60 + 0.4Y$$

$$S = I \Rightarrow 0.4Y - 60 = 90$$

$$\Rightarrow Y^* = 200$$



7.  $S = I$

$$0.4Y - 60 = 90$$

$$\Rightarrow Y^* = 200$$

If  $I$  increase by 20

$$\Rightarrow 0.4Y - 60 = 110$$

$$\Rightarrow Y^* = 250 \text{ (new eqbm)}$$

$$\text{Investment multiplier} = \frac{\Delta Y^*}{\Delta I} = \frac{50}{20} = 2.5$$

when  $I$  increase by 1; output increase by 2.5.

8. When money injected, firm have more money to operate their business. This mean firm can buy more machine, hire more labor. Thus, there are money in flow of income labor have more income, and increase in output.

9. When MPC increase, higher the investment multiplier

↳ When there is expenditure, firm receive more money and produce more for demand. Therefore, when firm receive more fund, they can expense more on machine, labor. labor get more salary, so MPC increase.

10. Paradox of Thrift states that increasing in autonomous saving leads to decrease in agg. demand. Therefore, agg. output decrease.

