

**Quiz#6 (Semester 1/2019) EE312 Credit equilibrium model**

Analyze the impact of an exogenous increase in future income ( $Y'$ ) on equilibrium consumption ( $C^*$ ), equilibrium saving ( $S^*$ ) and equilibrium interest rate ( $r^*$ ). Use the demand and supply diagram (D&S diagram) that we discussed in class, and supplement your analysis with the Edgeworth box diagram that is consistent with your D&S diagram. Assume that government uses the budget deficit policy in the first period. (Hint: Make sure that your graphical illustrations and all labels are consistent throughout.)