Student ID.....

EE212 Principles of Macroeconomics, 2/2017 (Sec. 046402-Sicha)

Problem Sets 4 :

Chapter 3. National Income Equilibrium (1)

Please submit at the BE office, 5th floor department of Economics building.
Deadline of submission : February 22, 2018, before 15.00 hrs. Late submission will not be accepted.

1. Consider the economy with

$$\begin{aligned} C &= 100 + 0.8Y_d, \\ T &= 50, \\ R &= 30. \end{aligned}$$

   (a) Find the break-even level of disposable income and interpret its meaning.

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   .....
   .....
   .....
   .....

   (b) Write down the saving function as a function of Y_d.

   .....
   .....

   (c) Write down the consumption function as a function of Y.

   .....
   .....

   (d) Write down the saving function as a function of Y.

   .....
   .....

2. Consider the economy with

$$\begin{aligned} C &= 1600 + 0.8Y, \\ T &= 600, \\ R &= 100. \end{aligned}$$

   (a) Write down consumption function as a function of disposable income (Y_d).

   .....
   .....
   .....

   (b) Find the break-even level of disposable income and interpret its meaning. Show your steps.

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   .....
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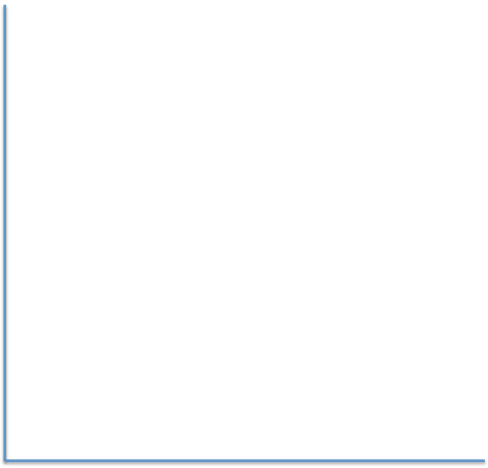
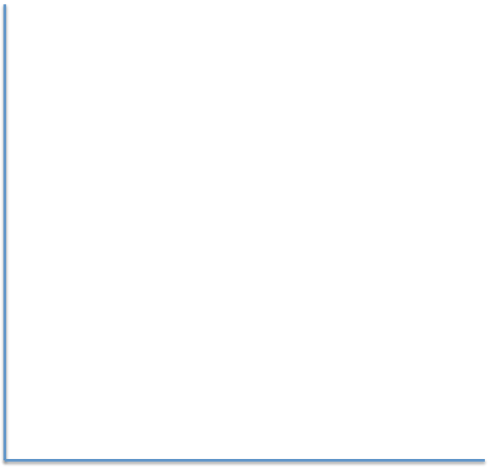
(c) Plot consumption (C) against disposable income (Y_d). Indicate the intercept and the break-even level of disposable income.



- The vetical axis intercept is equal to .....
- The slope is equal to .....

(d) Plot consumption (C) against aggregate output (Y). Indicate the intercept and write down the consumption function.



- The vetical axis intercept is equal to .....
- The slope is equal to MPC, which is equal to.....

(e) From (c), suppose Tax decreases from 600 to 200. Write down the new consumption function as a function of aggregate output (Y). Plot it on the graph in (d). Indicate clearly the original consumption line and the new consumption line.

The new consumption function is .....

3. Consider the economy with

$$\begin{aligned} S &= -2900 + 0.25Y_d, \\ T &= 900, \\ R &= 500. \end{aligned}$$

(a) Find the break-even level of disposable income. [No need to intrepret its meaning.]

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(b) Write down the consumption function as a function of Y_d.

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(c) Write down the saving function as a function of Y.

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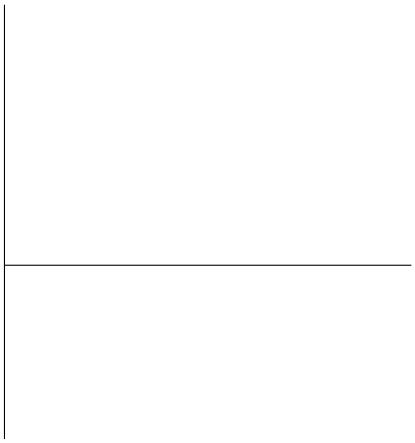
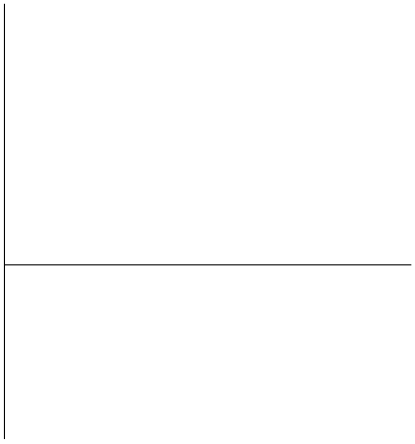
(d) Plot Saving against disposable income (Y_d). Indicate the intercept and the break-even level of disposable income.



- The vetical axis intercept is equal to .....
- The slope is equal to MPS, which is equal to.....

(e) Plot Saving against against aggregate output (Y). Indicate the intercept. Write down the saving function.



- The vetical axis intercept is equal to .....
- The slope is equal to MPS, which is equal to.....

(f) From (c), suppose Tax decreases from 900 to 600. Write down the new saving function as a function of aggregate output (Y). Plot it on the graph in (e). Indicate clearly the original saving line and the new saving line.

The new saving function is .....

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