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

Homework 6

Chapter 3. National Income Equilibrium and Chapter 4. Fiscal Policy

Please submit at the BE office, 5th floor department of Economics building.
Deadline of submission : March 6, 2018, before 15.00 hrs. Late submission will not be accepted.

1. Consider the economy with

$$\begin{aligned} C &= C_a + bY_d, \\ T &= T_a + tY, \\ R &= R_a. \\ G &= G_a \\ I &= I_a + i.Y \\ X &= X_a \\ M &= M_a + m.Y \end{aligned}$$

$$DAE = C_a - b(T_a - R_a) + I_a + G_a + (X_a - M_a) + (b - bt + i - m)Y$$

Find all multipliers in this economy

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2. Consider the following economy and answer all questions.

$$\begin{aligned} C &= 210 + 0.8Y_d, \\ T &= 20, \\ G &= 44 \\ I &= 22 + 0.02Y \\ X &= 155 \\ M &= 15 + 0.07Y \end{aligned}$$

$$\begin{aligned} DAE &= C + I + G + (X - M) \\ &= 210 + 0.8(Y - T + R) + 22 + 0.02Y + 44 + 155 - (15 + 0.07Y) \\ &= [210 - 0.8(20) + 0.8(0) + 22 + 44 + 155 - 15] + (0.8 + 0.02 - 0.07)Y \\ DAE &= 400 + 0.75Y \end{aligned}$$

(a) Find Equilibrium National Income.

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(b) Find all multipliers in this economy

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(c) Based on the solution from question (**a**), what happen to the equilibrium output if investment rises from 22 to 122?

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(d) Based on the solution from question **(a)**, suppose the national income at full employment (Y_N) is equal to 2,200 units.

i. What economic problem the country is currently facing; inflationary gap or deflationary gap? Explain.

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ii. If the government wants to change balanced budget policy to achieve the full-employment national income , what should the direction and the size of the change in Government Balanced Budget be? Specify the direction and the size of the change in Tax and Government Expenditure. Please draw a graph explaining what will happen to DAE and equilibrium national income.

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