

Useful Exercises  
November 2019

Assume that the equations below represent a closed economy.

$$C = 80 + 0.6(Y_D)$$

$$I = 1000$$

$$NX = (X - Im) = 0$$

$$Y_D = Y - T$$

$$T = 400$$

$$G = 500$$

1. Solve for:

- a) Equilibrium GDP ( $Y$ )
- b) Disposable Income ( $Y_D$ )
- c) Consumption Spending ( $C$ )
- d) Private Saving
- e) Public Saving
- f) The multiplier

2. Verify that, in equilibrium total saving equals investment.

3. Suppose that the government wishes to increase equilibrium GDP by 100.

- a) What change in government spending is required?
- b) If government spending cannot change, what change in taxes is required?