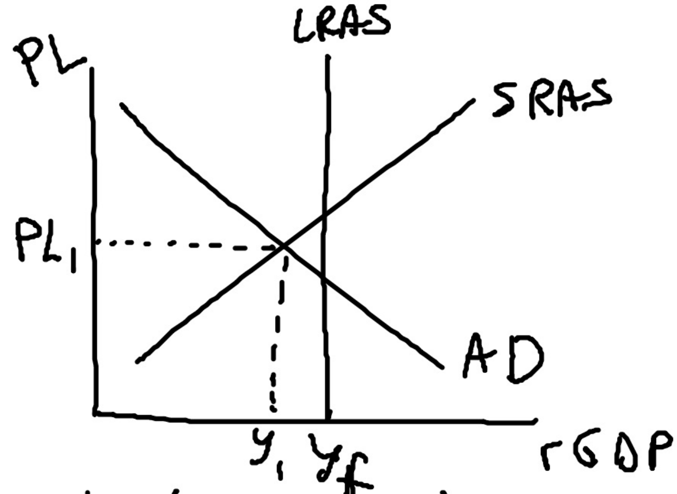
2014 MA #1

(a)

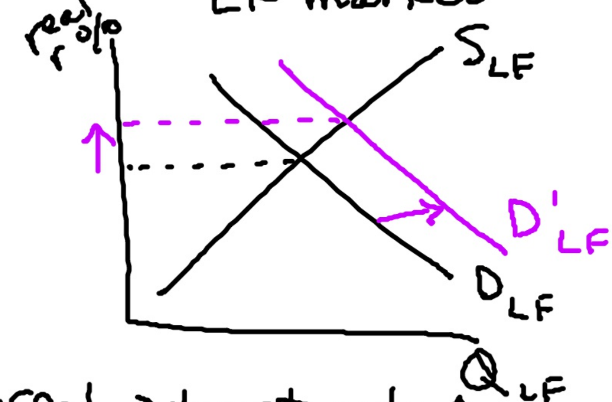


(b) cyclical unempl ↓

natural unempl. stays the samp

(c) multiplior $= \frac{1}{1-.75} = \frac{1}{.25} = 4 \times \$100bn = \$400bn$

(d) LF market



real interest rate ↑

~~(e) real longterm growth rate ↑ because investment will increase productivity.~~

(e) real interest rate increase will reduce investment, lowering long-term growth rate

(f) real GDP will still increase because tax multiplier (negative effect on GDP) is less than spending multiplier (positive effect on GDP)*

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* tax mult.: $\frac{MPC}{1-MPC} < \frac{1}{1-MPC}$

2014 MI #1

1 (a) (i) 4

(ii) \$40

(iii) 8

(b) neither, because LRATC is not increasing or decreasing.

(c) (i) econ. π - \$100

(ii) cons. surplus \$250