

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 10 points. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (25 points) Draw the Keynesian Cross, a.k.a. 45° diagram. Illustrate the effects of an increase in government spending. Explain why the curve(s) moved as drawn. Given your diagram, what would you estimate to be the size of the government spending multiplier? Explain your logic.
- 2) (20 points) Draw the Keynesian Cross, a.k.a. 45° diagram. Illustrate the effects of an increase in interest rates. Explain why the curve(s) moved as drawn. What happens to GDP?
- 3) (20 points) Draw the Keynesian Cross, a.k.a. 45° diagram. Illustrate the effects of a decrease in the MPS. Explain why the curve(s) moved as drawn. What happens to GDP?
- 4) (20 points) Draw the Keynesian Cross, a.k.a. 45° diagram. Illustrate the effects of an increase in the Canadian GDP. Explain why the curve(s) moved as drawn. What happens to GDP?
- 5) (15 points) When we calculated the government spending multiplier in class, we got 10. What does that number mean? What did we assume about taxes? If we relaxed that assumption, then what will happen to the size of the multiplier? Explain your logic.