

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) According to the second paragraph of the article at <https://www.arkansasonline.com/news/2022/aug/10/tax-cut-bills-approved-by-arkansas-house-senate/>, Arkansas has done a combination of temporary and permanent tax cuts. Which part of that proposal do you think will have the biggest impact on the economy? Explain your logic using an appropriate graph.
- 2) (15 points) Explain the equation $c = b_p y_p + b_T y_T$. For the two b 's, you do not need to explain what happens if they change. You do have to give estimates of their size and why those estimates make sense.
- 3) (20 points) Draw the intertemporal budget constraint. Illustrate the effects of an increase in this year's income. Explain why the curve moved as drawn. What happens to this year's consumption, this year's saving, and next year's consumption? State how you see them on the graph.
- 4) (20 points) Draw the intertemporal budget constraint. Illustrate the effects of an increase in next year's income. Explain why the curve moved as drawn. What happens to this year's consumption, this year's saving, and next year's consumption? State how you see them on the graph.
- 5) (20 points) Draw the intertemporal budget constraint. Illustrate the effects of an increase in the interest rate. Explain why the curve moved as drawn. What happens to this year's consumption, this year's saving, and next year's consumption? State how you see them on the graph.