

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. 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) (10 points) Explain  $r_{a-t} = (1-t)i - \pi^e$ .

2) (20 points each) Illustrate the following events on the S/I diagram. Explain why the curve(s) moved as drawn. What happens to the level of savings and the interest rate?

- A) Government spending increases.
- B) The wealth increases.
- C) The corporate tax rate increases.
- D) The depreciation rate increases.

3) (10 points) What are the current account and the capital financial accounts? Why should they sum to zero?