

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) the Keynesian Cross, a.k.a. 45° diagram. Illustrate the effects of an increase in government spending. Explain why the curve moved as drawn. Given your diagram, what value for the government spending multiplier would you estimate? Explain your logic.
- 2) (20 points) the Keynesian Cross, a.k.a. 45° diagram. Illustrate the effects of an increase in interest rates. Explain why the curve moved as drawn.
- 3) (20 points) the Keynesian Cross, a.k.a. 45° diagram. Illustrate the effects of a decrease in the MPC. Explain why the curve moved as drawn.
- 4) (20 points) the Keynesian Cross, a.k.a. 45° diagram. Illustrate the effects of a decrease in taxes. Explain why the curve moved as drawn.
- 5) (15 points) When we calculated the government spending multiplier, we implicitly made many assumptions. What did we assume about taxes paid? If we relaxed that assumption, what would happen to the size of the multiplier? Explain your logic. (Relaxing an assumption means no longer require that to be true.)