Economics 100B — Professor K. Kletzer
UCSC — Fall 2008

Problem Set 1
Due at the beginning of lecture, Wednesday, October 8

1. Suppose that the following behavioral equations characterize an economy (quantities are in billions of dollars):

$C = 2000 + 0.9\ Y_d$
$I = 1800$
$G = 1800$
$T = (1/3)\ Y$

(a) Solve for equilibrium real GDP, Y.
(b) Solve for equilibrium disposable income, Y_d.
(c) Solve for consumption expenditures.

2. Calculate the multiplier for the economy of problem 1.

(a) What is the predicted increase in real GDP for an increase in government expenditures of $100 billion?
(b) How much do taxes rise with this increase in real GDP?
(c) What is the net change in the government deficit (G-T)?

3. An algebraic version of the simple model of the economy is:

$C = c_0 + c_1\ Y_d$
$Y_d = Y - T$
$I = \bar{I}$
$Z = C + G + I$

(a) Solve for the algebraic expression for equilibrium GDP as in class or the text.

(b) Solve for an expression for the change in equilibrium GDP for an increase in government expenditures equal to ΔG when taxes are held constant.

4. Problem 8, Chapter 3 of Blanchard, p. 61.

5. Problem 4, Chapter 4 of Blanchard, p. 83.

6. Problem 5, Chapter 4 of Blanchard, p. 83.

Work out the following problems, but do not turn in your answers:

Problems 4, 5 and 6 of Chapter 2 of Blanchard, p. 37.