

Problem Set 5

Due at the beginning of lecture, Wednesday, November 26

1. Suppose that the administration proposes to stimulate the economy by increasing public spending now and reducing the government deficit in the medium run. Determine the impact of this proposal on current output, the current interest rate and current private saving under each of the following assumptions. For each answer, write what you think will happen to T^e , G^e , Y^e and r^e , and then how these changes in expectations affect current output, interest rate and private saving.
 - a. There is no change in monetary policy.
 - b. The Fed will change monetary policy to prevent any change in future output.
 - c. The Fed will change monetary policy to prevent any change to future interest rates.
2. Problem 6, Chapter 17 of Blanchard, page 372.
3. Problem 3, Chapter 18 of Blanchard, page 395.
4. Problem 5, Chapter 18 of Blanchard, page 395.
5. Problem 3, Chapter 19 of Blanchard, page 416.
6. Problem 5, Chapter 19 of Blanchard, page 417.