

PROBLEM SET 5, PART 2

DUE BY 2 P.M. PDT ON THURSDAY, APRIL 23RD

You may work together on the problems, but your answers must be ***in your own words*** and ***handwritten***. You also must ***list the other students with whom you worked***.

For all questions be sure to explain your answers and to use graphs whenever appropriate.

1. If consumers decide to devote a smaller fraction of each additional dollar of disposable income to current consumption, how (if at all) will this change the size of the multiplier effect?
2. Suppose the economy is at potential output and the government increases taxes.
 - a. What will the increase in taxes do (if anything) to output in the short run?
 - b. Assuming that the tax increase is permanent, what will it do to normal investment in the long run?
3. Suppose that a fall in house prices decreases wealth substantially.
 - a. How will this change affect output in the short run?
 - b. Suppose the Federal Reserve wants to prevent the impact you found in part (a). Should it increase the real interest rate, decrease it, or leave it unchanged (or is it not possible to tell)?
 - c. How, if at all, should the Federal Reserve change the supply of money in order to bring about this change in the real interest rate?
4. To help us with our planning of the logistics for the final, please answer the following questions about Midterm 2:
 - a. About how long did it take to **take pictures or scan your exam** into a digital version?
 - b. Once you had a digital version, about how much additional time would it have taken you to **send an email with your digital version attached** (and no subject/message required) to a predetermined email address?
 - c. Once you had a digital version, about how much additional time did it take you to **upload the digital version** to Gradescope? (Please include the time spent assigning answers/pages to questions.)