**Homework #5**

Due: 11 March 2024

1. **INCOME/EXPENDITURE MODEL**

Please answer the following with reference to the Income/Expenditure Model.

1. Suppose the economy is operating below its potential. What policies can the government undertake to move it to potential?
2. How would a decrease in foreign demand for a country’s exports be reflected in the model?
3. How is the marginal propensity to consume (MPC) captured graphically?
4. Does a government spending stimulus have a more powerful effect when MPC is higher or lower?
5. Would a tax cut have a more powerful effect if focused on high or low income households?
6. How will the effect of an increase in government spending differ between an economy that is open to trade and one that is closed?
7. If the government simultaneously increases spending and taxes by the same amount, what is the effect?
8. **AGGREGATE DEMAND / AGGREGATE SUPPLY MODEL**

Please illustrate each of the following within the Aggregate Demand/Aggregate Supply Model.

1. Advances in Artificial Intelligence bring about major productivity gains.
2. The central bank buys government bonds.
3. Government raises taxes.
4. A pandemic causes factory closures and transport disruptions.
5. **MORE** **AGGREGATE DEMAND – AGGREGATE SUPPLY**

Interactive exercises can be found [here](https://www.reviewecon.com/games-activities/asad-model).

For questions on central bank action, note that:

* policies to lower the reserve requirement and the discount rate act as a monetary stimulus;
* a policy to increase interest on reserves reduces the money multiplier.