Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Delete this before using. Ran out of time, difficult material for them b/c computations.

Barreto

Macro Topics

G and T Multipliers in the Keynesian Cross

Multipliers are a central part of Keynesian macro policy. Suppose the X Multiplier was 8. This would mean that output would rise by 8-fold given an increase of X. The equation is X = Ye/X. This can be written as

Ye = X\*X (given a shock, what’s Ye?) and X = Ye/X (what’s the shock needed to get a desired Ye?)

If X increases by 4, then Ye goes up by 32. Also, if we want Ye to rise by 16, then we would increase X by 2.

Proceed to the *Model* sheet and click on the Live Version button. Copy the Live sheet. Click on the Rand button.

Figure out the value of the G Multiplier for your economy and write it down below:

Increase G by $1 trillion. Did Ye rise by the expected amount? Increase G by $3 trillion. Is all well? Return G to its initial value.

If Y = C + I + G, then why does Ye rise by more than the increase in G? I mean, if X = X1 + X2 and X1 = 10 and X2 = 5, then X = 15 and if X2 rises to 10, then X = 20. So what’s going on with Y = C + I + G?

Compare your G Multiplier with the person next to you. What determines who has the bigger G Multiplier?

Figure out the value of the T Multiplier for your economy and write it down below:

Increase T by $1 trillion. Did Ye rise by the expected amount? Increase T by $3 trillion. Is all well? Return T to its initial value.

Why is the G Multiplier > T Multiplier (in absolute value)?

Compare your T Multiplier with the person next to you. What determines who has the bigger T Multiplier?

Do Task 3 for your economy.

YF = full employment Y = potential GDP = GDP on the economy’s long run path

From whatever Y you’re at, suppose YF was 10% bigger. What would the unemployment rate be? (Guess a number and I’ll tell you if it makes sense.)

What determines whether your guess makes sense or not?

Why isn’t Ye always equal to YF?

Use G to move the economy to YF. Show your work below and test it on the spreadsheet. Did it work?

Return G to its initial value.

Use T to move the economy to YF. Show your work below and test it on the spreadsheet. Did it work?

Return T to its initial value.

Use the Balanced Budget Multiplier to move the economy to YF. Show your work below and test it on the spreadsheet. Did it work?

The Fed does not control G or T. What could the Fed do to move the economy to YF?

Implement the plan on the spreadsheet. Did it work?

Save your workbook.

What questions do you still have about the Keynesian Cross model?

HW: Watch all 3 screencasts and complete tasks 1 and 2 by noon Wed in MoneyMarket.xls.