

4. Suppose the marginal propensity to consume is 85% and the marginal propensity to import is 15%. The economy is in a recession. Real GDP is \$18 trillion, and at full employment real GDP would be \$21 trillion. Congress and the president decide to increase government spending in an effort to push real GDP to potential GDP. How much should government spending be increased by?

5. What happens to the multiplier if MPS increases from 5% to 10% (assume MPM=0). Which MPS gives the government greater power to influence GDP? Which MPS creates a less volatile economy (i.e. which MPS causes smaller fluctuations in real GDP)?