

ECO 120: Macroeconomics

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

In-class Exercise

Expenditure Multiplier

Section (Circle One): 2:15pm-3:40 3:55am-5:20

**Directions:** Work in groups of up to four people and answer the following questions. All papers will be collected, but only one member's paper will be randomly selected and graded and all members of the group will receive the same grade.

By signing below, you agree that the following work represents the efforts of everyone in the group, and you are willing to accept as your own grade for the group project the grade earned from this representation of your group's work.

_____ Signature Group Member 1	_____ Print Name	_____ Date
_____ Signature Group Member 2	_____ Print Name	_____ Date
_____ Signature Group Member 3	_____ Print Name	_____ Date
_____ Signature Group Member 4	_____ Print Name	_____ Date

1. Suppose the marginal propensity to save is 0.10 and the marginal propensity to import is 0.15. Suppose an increase in consumer confidence leads to a \$250 billion increase in consumer spending. What is the change in real GDP?
2. Suppose in a country the marginal propensity to consume 90% and imports are unaffected by disposable income or real GDP. Suppose firms expect the price of oil to significantly increase next summer, which would increase the cost of transporting goods between factories and retailers, and ultimately hurt profits. Expecting this to happen, investment in the economy decreases by \$100 bn. What is the immediate change in real GDP?
3. Suppose an increase in income in Europe causes an increase in demand for U.S. exports to Europe by \$200bn. Workers and business owners experience an increase in income, of which they put about 10% towards saving and 15% towards purchasing imported goods. Compute the immediate change in real GDP in the United States.

