Expenditure Multiplier	Section (Circle One):	2:15pm-3:40 3:55am-5:20
Directions: Work in groups of papers will be collected, but only and all members of the group will	one member's paper will be	~ -
By signing below, you agree that the group, and you are willing to earned from this representation of	accept as your own grade f	· ·
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

ECO 120: Macroeconomics

In-class Exercise

Your Name: _____

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.

4.	Suppose U.S. consumers preferences change such that their demand for imports in-
	creases by $$50$ bn. Suppose the marginal propensity to consume is 0.92 and the marginal
	propensity to import is 0.12. Compute the immediate change in real GDP in the United
	States.

5. Suppose in a closed economy (no imports or exports) when aggregate income increases by \$120 consumers put an additional \$20 in savings. Suppose the government increases spending by \$50 billion. Compute the immediate change in real GDP.

6. Suppose the marginal propensity to consume is 95% and the marginal propensity to import is 10%. The economy is in a recession. Real GDP is \$9.5 trillion, and at full employment real GDP would be \$10 trillion. The president decides to increase government spending to solve the problem. By how much should government increase its spending to bring real GDP back to potential GDP?