ECO 305: Intermediate Macro	peconomics Your Name:	
In-class Exercise: Consumption	on / Saving Model	
· ·	p to four people and answer the follown mber's paper will be randomly selected same grade.	· .
, , ,	he following work represents the effort rour own grade for the group project tok.	• • • • • • • • • • • • • • • • • • • •
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 consumers expect an increase in income in the future. Describe and illustrate the effect on current consumption, future consumption, and saving.
2.	Suppose there is a temporary decrease in income (i.e. an decrease in income in the current period and no change in income in the future period). Describe and illustrate the effect of current consumption, future consumption, and saving. Is the drop in current consumption larger, smaller, or equal to the drop in current income? Explain intuitively.
3.	Suppose there is a permanent decrease in income (i.e. an decrease in income in the current period and future period by the same amount). Describe and illustrate the effect on current consumption, future consumption, and saving. Do you think the drop in consumption in each period is larger, smaller, or equal to the drop in income in each period? Explain intuitively.

4.	Suppose the government cuts current spending and taxes by the same amount. Describe and illustrate the effect on current consumption, future consumption, and saving.
5.	Suppose the Federal government plans to increase government spending in the current period, but is not going to change its plans for government spending in the future. Using the government budget constraint above, describe the impact this will have on consumer's budget constraints.
6.	Suppose that there is an increase in government spending, but no change in future government saving. Describe and illustrate the effect of an increase in current government spending on current consumption, future consumption, and saving.

7.	Suppose the government passes a law to increase government spending in the current period,
	but puts together a "Congressional Super Committee on Deficit Reduction" to balance the
	government budget constraint in the long-run without raising taxes. This did happen with
	the Budget Control Act of 2011 which also avoided a U.S. federal government default. Describe
	and illustrate the effect on current consumption, future consumption, and saving.

8. Suppose the government announces an increase in government spending to begin in the future, but there is no change in current government spending or current taxes. Describe and illustrate the effect on current consumption, future consumption, and saving.