ECO 120: Macroeconomics **Your Name:** ______________________

In-class Exercise

Expenditure Multiplier **Section (Circle One): 7:45-9:10AM 9:25-10:50AM**

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.

4. Suppose U.S. consumers preferences change such that their demand for imports increases by \$50bn. 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?