

Problem Set 2  
Economics 152  
Due: Wednesday, March 22nd

Name:

**YOU MUST SHOW ALL WORK TO RECIEVE CREDIT. IF I DO NOT SEE WORK, YOU WILL GET NO CREDIT EVEN IF YOU HAVE ALL THE CORRECT ANSWERS.**

Please include your work and answers to the chart below on the chart page and please answer the remaining questions either on the back of the chart or on a second sheet. Please staple the sheets together. Failure to do so will cost you **5** points.

Assume that the information below all pertains to the country "Newarkia." Use the information you are given to fill in the following chart and complete accompanying questions.

Newarkia is a small country specializing in academics, mechanics, and bankers. Newarkia is a very private nation and does not trade with other countries or have any type of organized government. The level of investment in the country is very sensitive to the interest rate in the economy. When the interest rate (no inflation) is 5% there is \$18 million in gross private domestic investment that takes place. For every percentage point change in the interest rate,  $I_g$  changes by \$2 million dollars in the opposite direction.

- A. Complete the following chart assuming that the interest rate is 8%. All spending and income values are in millions. Assume that the second row of the marginal statistic columns is for the change between the first and second rows.
- B. What is break-even income?
- C. What is equilibrium GDP in Newarkia?
- D. What would happen to equilibrium GDP if the interest rate changed to 6%?
- E. What is the multiplier for the economy?
- F. Draw the Investment demand curve for the economy. (Draw it to scale using the numbers given.) Show how you came up with your investment amount from the chart.

NAME: \_\_\_\_\_

Level of Output and Income (GDP=DI)	Consump. (C)	Invest. (I <sub>g</sub> )	Savings	Agg. Expend. (AE)	APC	APS	MPC	MPS
240			-4				XXXXXXXXXX	XXXXXXXXXX
260			0					
280	276							
300			8					
	308		12					
	324		16					
360			20					
380	356							
400			28					