

Problem Set #1

1.. Consider the following simple model of an economy.

- (1) $E = C + I + G$ Exogenous Variables I, G
- (2) $C = 100 + .8*Y_d$
- (3) $Y_d = Y - T$ Endogenous Variables E, C, Y_d , T, Y
- (4) $T = .25*Y$
- (5) $Y = E$

- a. Determine the reduced form equation for Y_d (Disposable Income)
- b. Assume $I = 140$ and $G = 200$; compute equilibrium for Y_d .
- c. Indicate whether each equation is behavioral, technological, an identity, or an equilibrium condition.
- d. Given the values in b., determine the level of the government deficit at equilibrium for output.

2. The land of Chewandswallow only has three products: oranges, peaches, and turkeys (with prices and quantities as listed below).

- a. How much has the economy grown (in real terms) between the two years?
- b. How much has the price level risen?
- c. Are the answers to a. and b. unique? Why or why not?

	<u>2002</u>		<u>2012</u>	
	P	Q	P	Q
Oranges	\$.10	1000	\$.20	1,200
Peaches	\$.25	700	\$.40	1,000
Turkeys	\$.50	800	\$.40	1,200

3. Use the data below to fill in the blanks and to answer parts a through c.

GDP	I	C	G	eX	iM	Sp	T
200 B	60B	95B	40B	75B	Determine	62B	Determine

- a. Determine the trade balance and whether capital flows in or out.
- b. Determine the budget balance
- c. What's the relationship (positive or negative) between the trade balance and budget balance? Indicate a condition under which this relationship might change.

4. The Bureau of Labor Statistics in the U.S. publishes six different measures of the unemployment rate. One is published as the official such rate. How should one view the official rate and its alternatives?

5. How does the President's Council of Economic Advisors view the near term and long term future for the U.S. economy? What underpinnings (critical assumptions – stated or unstated) are required to support their view?