1. If you are at all surprised by this first question, then you haven’t been paying attention. Imagine an economy described by the following equations:
   \[ C = 1600 + 0.5Y_d \]
   \[ I = 300 \]
   \[ G = 100 \]
   \[ NX = -200 \]

   A. Calculate equilibrium GDP if \( T=100 \). (3)

   B. How will equilibrium GDP change if \( G \) increases to 200? (3)

   C. Calculate equilibrium GDP if \( T=0.5Y \) (3)

   D. Would the expenditure multiplier be larger or smaller if imports were a function of \( Y \)? (3)
2. In two aggregate expenditure graphs, show how a larger or smaller value of the multiplier affects the result of an increase in aggregate expenditures. Be sure to label curves and axes. (3)

3. The chapters from the O’Rourke book on Tanzania and Hong Kong discuss, among other things, tax rates and tax revenue. Explain why raising tax rates may actually reduce tax revenue. (3)
4. How might a government carry out….

A. expansionary fiscal policy? (3)

B. contractionary fiscal policy? (3)
5. Explain what is meant by supply side economics and offer two examples of supply side fiscal policies. (3)
6. Show the effect of the following events on the aggregate expenditure model. Use only the AE graph in answering this question. Be sure to label your axes and curves, and the 45° line.

A. An increase in interest rates. (3)

B. An increase in the price level. (3)

C. An increase in income tax rates. (3)
7. Discuss briefly how the expenditure multiplier works to convert an $100 increase in government spending into a much larger increase in equilibrium GDP. (3)
8. Money and banking are fun topics.

A. How are the ideas of legal tender and fiat money linked? (3)

B. Explain how banks create money in a fractional reserve banking system. (3)
9. List the fiscal and monetary policy moves that might be appropriate if an economy was in a severe recession. (5)