Assignment 4

# Consumption Practice

Suppose that the economy is characterized by the following behavioral equations:

$$C=160+0.6YD$$

$$I=150$$

$$G=150$$

$$T=100$$

## Question 1

Solve for the following variables.

1. Equilibrium GDP (Y)
2. Disposable income (YD)
3. Consumption spending (C)

## Question 2

Use the economy described in Question 1.

1. Solve for equilibrium output. Compute total demand. Is it equal to production? Explain.
2. Compute private saving.
3. Assume that G is now equal to 110. Solve for equilibrium output. Compute total demand. Is it equal to production? Explain.
4. Assume that G is equal to 110, so output is given by your answer to part c. Compute private saving. Is private saving greater than, less than, or equal to part b?
5. Explain the intuition behind your answer to d.