

## Case Study Example: Japan

Economist Editorial (2/20/99): Japan is caught in depression. Falling prices, high real interest rates, and Government Debt beginning to spiral.

What has gone wrong? Why cannot Government spending dig Japan out of recession?

Percent Total of GDP 1994.

	C	I	G	X-M
Japan	57	31	9	3
US	66	16	17	-2
France	60	21	18	0
Germany	53	21	19	7

Marginal Propensity to Consume  
(MPC)

Japan's MPC (1950-1992): 0.544.

Japan's Permanent Income MPC  
(1950-1992): 0.359.

Japan's Marginal Propensity to  
Import: 0.223.

Let us assume that the tax rate is:  
 $t = 0.25$