

100b Midterm #2 Review Questions, Chapter 10, Si-Yeon Lee

1. The estimates for the budget deficit (the difference between the government's spending and the government's revenue) for the next decades are announced today. It turns out surprisingly higher than expected before. What would happen to the output gap? Discuss possible impact on the IS curve.

2. Assume that a technology that raises overall marginal product of capital of the economy has been applied and the increase is immediate. What would be the effect on the output gap?

3. Consider the following:

$$C_t = 0.2 \times \bar{Y}_t$$

$$G_t = 0.5 \times \bar{Y}_t$$

$$\frac{I_t}{\bar{Y}_t} = 0.3 - 0.4(R_t - 0.04)$$

1) Derive the IS curve.

2) Draw the IS curve.