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Macroeconomics Homework Part 2 (of 2)

Principles of Economics with Dr. Beck

Module 6

Due Friday Jan 21, 17:00

This part of the assignment will cover Sessions 12-14 and be worth 50 of the 100 points attached to the macro assignment.

Please write your answers in **bold** (or receive a 1 point penalty).

Question #1)

In class, we learned about how changes to the money supply can have an impact on the macro economy in the short run. Can changes in the money supply affect the macro economy (specifically rGPDpc) in the long-run? Briefly explain why or why not in 70 words or fewer. (8 points)

Question #2)

In the 1940s, China's currency was losing much of it value (China was in a civil war at the time with the Communists led by Mao Zedong). At the same time, US occupying soldiers in Japan noticed that there was a serious paper shortage in Japan. Many of the soldiers purchased Chinese currency with dollars and sold it in Japan as recyclable paper at a profit. In this situation, was the Chinese currency a fiat or commodity money? Explain in 50 words or fewer. (8 points)

Question #3)

In class, we learned that an increase in interest rates will cool the economy off (reduce GPD). One reason is that the higher interest rates will make it more costly for firms to borrow money to invest in new capital. It is true, however, that some firms can self-finance their capital investment. In other words, they have retained earnings from a previous period and are able to purchase the capital without the need to go to the banks for a loan. But even for these firms, higher interest rates will discourage investment spending. Why? Answer in 80 words or fewer. (Hint: think back to some of the basic concepts we learned about in Session 1.) (8 points)

Question #4)

 i) Using our AS/AD model, illustrate what will happen in the short-run from a decrease in household wealth, such as a stock market crash. As usual, if drawing in Word is annoying you, you can always describe your graph, just please be specific and clear. (4 points).

ii) Now, in the above graph (or described below), illustrate what happens in the long-run. (4 points)

Question #5)

i) Comment briefly (<40 words) on the relationship between the marginal propensity to consume(MPC) and the marginal propensity to save (MPS). (2 points)

ii) What would be the specific effect on GDP of a $500 tax cut? Assume the marginal propensity to **save** is 0.3. And please note that I am looking for a specific amount. (3 points)

iii) What would be the specific effect on GDP of a $500 increase in government spending? Assume the marginal propensity to **save** is 0.3. And again, I am looking for a specific amount. (3 points)

Question #8)

Briefly explain the potential consequences of high levels of government debt in 120 words or fewer. (10 points)