**Problem sets/policy questions.**

19. Suppose that the economy starts at equilibrium and the mpc = 0.8. What would be the effect of a **500** increase in taxes once all the rounds of the multiplier process are complete?

20. Assume the government cuts its purchases by **$150** billion. As a result, the budget deficit is reduced by $40 billion, private domestic saving decreases by $10 billion, disposable personal income decreases by $80 billion and the trade deficit is reduced by $15 billion. By how much has national income (Y) changed?

21.Compute the GDP using the data in the table

|  |  |  |
| --- | --- | --- |
| Government Purchases | 15 |  |
| Consumption | 90 |  |
| Gross Investment | 20 |  |
| Consumption of Fixed Capital | 5 |  |
| Exports | 8 |  |
| Imports | 12 |  |
|  |  |  |
|  |  |  |

22. Using demand and supply analysis to assist you, what are the effects on the exchange rate between

the British pound and the Japanese yen from: a *decrease* in Japanese interest rates

(Please respond by stating which currency will appreciate and which one will depreciate. That is all that is required)