



College of Business Administration
Department of Economics
Aggregate Economic Conditions & Analysis
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Assignment VIII

Question I

Suppose that the government never has and never will issue any bonds. Then, use the government's budget constraint to complete the following table.

P_t	G_t	V_t	T_t	$M_t - M_{t-1}$
\$2/good	500 goods	\$200		\$400
\$2/good		\$300	\$500	\$200
\$3/good	300 goods	\$300	\$600	
\$6/good	300 goods	\$600	\$1200	

Question II

Assume people find that 1 additional government provided good causes them to reduce their private spending by $\frac{1}{4}$ good. Further, assume that an additional government provided good boosts output by $\frac{1}{8}$. Then what is the direct response (before the real interest rate changes) of a temporary 1 good increase in government consumption on:

- private consumption
- private investment
- government consumption
- total aggregate demand
- total aggregate supply

Question III:

Using the market clearing model and the information presented in Chapter 12, answer the following.

“Some economists believe that models in which monetary policy has no effect on output *necessarily* conclude that fiscal policy likewise has no effect.” True, False or Uncertain. Explain your answer.