

Assignment 1

Econ 302

(Due on 07/06/17)

1. An American farmer sells a truckload of sugar cane to an American sugar refinery for \$200. The refinery extracts the sugar from the sugar cane and sells it to Coca-Cola for \$350. Coca-Cola uses the sugar in its bottling plant in Toronto, Canada and the resulting Cola is sold in Canada for \$575. How will this string of transactions affect U.S. GDP? How will it affect U.S. GNP? How will it affect Canadian GNP and GDP?
2. Place each of the following transactions in one of the four components of expenditure: consumption, investment, government purchases, and net exports
 - (a) Boeing sells an airplane to the Air Force
 - (b) Boeing sells an airplane to American Airlines
 - (c) Boeing sells an airplane to the Air France
 - (d) Boeing sells an airplane to Amelia Earhart
 - (e) Boeing builds an airplane to be sold next year.
3. Suppose the government decides to decrease taxes in an effort to increase consumer spending and investment in the economy.
 - (a) Will this plan succeed in accomplishing both goals?
 - (b) In equilibrium, what happens to interest rates as a result of this action?
 - (c) Would you characterize this as a case of fiscal crowding out? Explain.

4. If the government wants to increase the amount of savings in the economy, how should it alter government spending? What effect will this action have on the interest rate in the economy? (Use the appropriate graph to help demonstrate the effect.)
5. The government raises tax by \$100 billion. If the marginal propensity to consume is 0.6, what happens to the following? Do they rise or fall? By what amounts?
 - (a) Public saving
 - (b) Private saving
 - (c) National saving
 - (d) Investment
6. The great recession affected both consumer confidence and the business confidence in the U.S. The classical economic theory states that the income is fixed in the long-run, what will be the effect of this decline in consumer and business confidence on savings and interest rate?
7. The Republican Party opposed Obama administration's stimulus program on the ground that the plan would increase government spending by a huge amount, and hence it will have a negative impact on the U.S. economy. Explain in words how does an increase in government spending may affect future growth. Is it possible for the increase in government spending to stimulate growth?