Problem Set #3  
ECON 4020, Prof. DeBacker  
Due Monday, March 23, 5 p.m.

NOTE: You are encouraged to work on this problem set in a group of up to four members. When finished, each group should turn in one copy of the problem set directly to me or to the departmental office on the fth floor of Brooks Hall. A completed problem set should list the names of the group members who worked on the assignment. As noted in the syllabus, no late assignments will be graded.

1. Chapter 9, Problems and Applications (5 points): #3, #4
2. Chapter 10, Problems and Applications (10 points): #2, #5
3. Chapter 10, “Made up problem”- the Stimulus Package (10 points):
   • Assume that the natural level of output for the US economy is $15 trillion. Also, assume that the marginal propensity to consume is 0.8.

   (a) What was GDP in 2008?
   (b) If the government wishes to get GDP back to its natural level, how big should the stimulus package be?
   (c) Some of Obama’s advisors measure the multiplier on government spending as being 1.57. Given this, how much should the government be spending?
   (d) How big was the stimulus package? Was it closer to your answers for part “b” or part “c”?

4. NOTE: These three problems from Chapter 5 are not due with this homework because I did not cover all the material. Chapter 11, Problems and Applications (0 points): #1, #3, #7