

Assignment No2 Solution **ECO 403**

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Government Purchases Multiply Before investment:

$$MPC_0: 0.50$$

$$\Delta Y_0 = \Delta G_0$$

$$\Delta Y_0 = \left(\frac{1}{1 - MPC_0} \right) \Delta G_0$$

$$= \left(\frac{1}{0.5} \right) \Delta G_0$$

$$\Delta Y_0 = 2 \Delta G_0$$

Changes in 'G' causes the 2 time changes in 'Y' income

Government Purchase After Investment

$$MPC_1 = 0.65$$

$$\Delta Y_1 = \left(\frac{1}{1 - MPC_1} \right) \Delta G_1$$

$$= \left(\frac{1}{1 - 0.65} \right) \Delta G_1$$

$$= 2.85 \Delta G_1$$

Tax (Part 3)

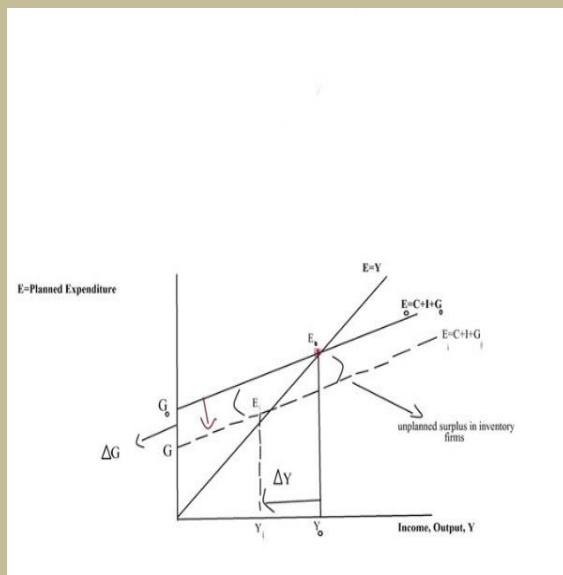
Tax

$$\Delta Y = \left(\frac{-MPC_1}{1 - MPC_1} \right) \Delta T$$

$$= \left(\frac{-0.65}{1 - 0.65} \right) \Delta T$$

Tax

$$= -1.86 \Delta T$$



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