Problem Set #6

1. The Forbidden Kingdom is well described by the following equations:
   \[ Y = C + I + G + NX \]
   \[ C = 1000 + \frac{3}{4} (Y-T) \]
   \[ T = -2667 + \frac{1}{3} Y \]
   I = 2000
   G = 2500
   NX = -500
   Potential Output \( Y^* = 15,500 \)

   a. What is the current level of output? Are we in a recession or a boom?
   b. What is the budget deficit or budget surplus?
   c. Suppose there is a balanced budget amendment which requires the government to maintain a balanced budget by adjusting \( G \). What is the required level of \( G \), and the resulting level of output?
   d. Suppose there is a balanced budget amendment which requires the government to maintain a cyclically adjusted balanced budget by adjusting \( G \). What is the required level of \( G \), and the resulting level of output?
   e. What is the level of \( G \) necessary to get the economy to operate at potential output?
   f. Is this level of \( G \) possible if the government is required to maintain a balanced budget?
   g. Is this level of \( G \) possible if the government is required to maintain a cyclically adjusted balanced budget?

2. Ch. 17, p518, #5
3. Ch. 18, p541, #1
4. Ch. 19, p567, #4
5. Ch. 20, p590, #1

Due Thursday 2 May