ECO403 – Macro Economics
SOLUTION of ASSIGNMENT # 2, FALL 2012

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Requirements:

Using the information given, calculate:

A. Consumption of the people of Egypt from the given equation after the investment

For solving part A we are given equation C = 100 +0.75Y
here value of Y that is income, after investment income is 15000

C = 100+ 0.75 (15000)

C = 100 + 11250 = 11350

B. Government spending multiplier before and after the investment

Formula for Government Spending Multiplier = 1/MPS

Before Investment MPS = 0.3 so answer is = 3.33

After investment MPS is 0.25 so answer is = 4

C. Tax multiplier before and after the investment

FORMULA FOR ***Tax multiplier = - MPC/MPS***

Before investment = -2.33

After investment = -3

D: Nominal Interest Rate

Formula for Nominal interest rate
I = r + п **п** is inflation rate **r** is real interest rate

Before investment
so I = 5.5% + 2.1% = 7.6%

After investment
I = 5.7% + 2.5% = 8.2%