

Shivaji College, University of Delhi
Department of Economics
Assignment (Academic Year 2023-2024)

Name of the Course	: GE	Semester: II
Name of the Paper	: Principles of Macroeconomics	Faculty Name : Nidhi Sehrawat
Duration	: 1 Hour	Maximum Marks: 12
Date of Test	: 24 th March 2024	

Q1. Suppose we have an economy with the following: (5)

$$C = 50 + 0.8 Y_d,$$

$$I = 70, G = 200, TR = 100, t = 0.20$$

- Calculate the equilibrium level of income and the multiplier in this model.
- Calculate the Budget Surplus
- Suppose t increases to 0.25. What is the new equilibrium income? And new multiplier?
- Calculate the change in the budget surplus. Would you expect the change in the budget surplus to be more or less if $c = 0.9$ rather than 0.8.
- Can you explain why the multiplier is 1 when $t = 1$?

Q2. What is Investment Multiplier? How is it related to Marginal Propensity to Consume? (5)

Q3. What is paradox of thrift? (2)

Nidhi