

Macroeconomics Discussion Session Exercise #6

1. Explain the paradox of thrift and demonstrate it using a numerical example.

2. Outline Keynes's critique of the neoclassical theory of saving and investment (fully explain).

3. Given the following values:

$$mpc = 0.8 \quad Y_f = \$2600 \quad Y_e = \$2000$$

Identify three types of fiscal policies to bring the economy to full employment and cite the impact on the government budget deficit (or surplus) in each case.