1. Read chapter 23 from Hubbard and O’Brien, including its appendix.

2. Define “Inventories” “Aggregate Expenditure” “Marginal Propensity to Consume” “GDP Multiplier” “Aggregate Demand” “Autonomous Expenditure” “Incentive” and “Equilibrium” with one or two sentences each. Do not use the definitions in the book; provide your own definitions in a way anyone can understand.

3. Define the GDP multiplier in your own words. Make up an example to explain it to your great-grandparents.

4. What is aggregate expenditure? How is it different from the GDP?

5. What is so special about the intersection of the 45 degree line and the AE curve? Why does that point define “equilibrium”? What happens if the economy is operating on any other point on the AE curve?

6. Explain your reasoning and intuition when answering. Assume that in your country “yournameistan” consumption is given by $C=a+bDI$. Taxes are fixed at $T$. Government services are constant at $G$. Exports are given at $X$. Imports are unchanging at $M$.

   (a) Find the equation of the aggregate expenditure in terms of the GDP
   (b) What is equilibrium GDP? What is the multiplier? What is the total effect of increasing $G$ by one unit on equilibrium GDP? What is the effect of increasing $X$ by one unit?
   (c) What is the effect of increasing taxes by one unit on equilibrium GDP? What is the multiplier?
   (d) Repeat (b) if imports are increasing with GDP and are given by $\text{Imports}=M+mY$.
   (e) Repeat (b) if imports are as given in (d) and taxes also have a proportional component, $\text{Taxes}=T+tY$.

7. Why are inventories important in aggregate expenditure analysis? Make sure that your answer defines and uses desired investment and actual investment concepts.
8. Why does real consumption depend on the price level after controlling for real disposable income? (The answer is not “we want to consume less when prices are higher”.)

9. Algebraically derive the aggregate demand curve from aggregate expenditure curves for different prices (i.e. take consumption as C=a+bDI-cP and derive the AD curve). Show the graphical equivalent and provide economic intuition in words.

10. Recently a discussion forum was started on our course’s moodle page. You can find the forum entitled “Schooling Policies” under the section entitled “Discussion from random articles from the Economist”. Read the discussion posted on the forum by your classmates so far and add a thought-out and clear contribution to the discussion. Your contribution should add value to the discussion and not simply replicate previous postings.