**ECON 206 WORKSHEET 4**

**1.** Show the effects of an increase in government purchases (G) in an IS-LM framework.

**2.** Show the effects of a monetary expansion in an IS-LM framework.

**3.** Show the effect of a decrease in transfer payments (TR) that is combined with an increase in money supply (M/P) in an IS-LM framework.

**4.** Show the effects of an increase in the income tax rate in an IS-LM framework.

**5.** Show the effects of removing an investment subsidy in an IS-LM framework.

**6.** Assume the money sector can be described by the following two equations:

 md = (1/4)Y - 10i and ms = 400.

 In the expenditure sector only investment spending (I) is affected by the interest rate (i), and the equation of the IS-curve is:

Y = 2,000 - 40i.

a. Assume the size of the expenditure multiplier is α = 2. What is the effect of an increase in government purchases by ΔG = 200 on income and the interest rate?

1. Can you determine how much investment is crowded out as a result of this increase in government purchases?
2. If the money demand equation were changed to md = (1/4)Y, how would your answers in a. and b. change?