ECO 102: Introduction to Macroeconomics
Problem Set #2
Lectures 3 & 4
Due Date: 17 July, 11AM
Total Points: 30

Problem 1: Building the AEF Function [30 Points]

Suppose that we are in an economy with international trade, the government, domestic consumption, and investment. The government retains a **tax rate of 10%**.

Suppose that we observe this economy with a Real GDP of Y = 1,000. The amounts for each of these desired expenditure categories at each of these levels of Y are given by:

<u>At Y = 1,000</u>:

Consumption = 1,000
Government Spending = 550
Investment = 150