ECO 102: Introduction to Macroeconomics
Problem Set #3
Lectures 5 & 6
Due Date: 24 July, 11AM
Total Points: 30

Problem 1: Deriving the Aggregate Demand Function [14 Points]

Suppose that we are considering the AEF, which is made up of desired C, G, I, and NX. As in lecture, we will assume that both C and NX respond to prices (p) in the economy. I and G do not. All four are given by:

$$C = 40(10 - p) + 0.85Y$$

$$I = 200$$

$$G = 300$$

$$NX = 20(10 - p) - 0.1Y$$