Practice Problem:

1. Consider an economy in which the consumption function is given by $C = 200 + 0.3(Y - T)$ and the investment function by $I = 300 - 0.1r$. Compute the equation for the IS curve if

   (a) $G = 200$ and the budget is balanced
   (b) $G = 200$ and the deficit is 50

2. Consider an economy in which the consumption function is given by $C = 200 + 0.3(Y - T)$ and the investment function by $I = 300 - 0.1r$. Suppose $Y$ is fixed at 500. **Do not worry about the realism of the numbers.** Compute $r$ and $I$ when

   (a) $G = 200$ and the budget is balanced
   (b) $G = 200$ and the deficit is 50
   (c) how responsive is $r$ to a change in the tax $T$ in (a) above

3. Consider an economy in which the consumption function is given by $C = 200 + 0.3(Y - T)$ and the investment function by $I = 300 - 0.1r$. Suppose $Y$ is fixed at 500. **Do not worry about the realism of the numbers.** Compute $r$ and $I$ when

   (a) $G = 250$ and the budget is balanced
   (b) $G = 250$ and the deficit is 75
   (c) compare your answers to those in 2(a) and (b) above