

SIMON FRASER UNIVERSITY
Department of Economics

Econ 305
Intermediate Macroeconomic Theory

Prof. Kasa
Fall 2013

PROBLEM SET 3
(Due November 15)

1. (25 points). What does the neoclassical/market-clearing model imply about the size of the ‘fiscal multiplier’ (i.e., the response of output to a temporary rise in government spending). Under what conditions will it be large? Under what conditions will it be small? Illustrate your answer with a graph. Why do Keynesian models generally predict a larger multiplier? If it’s positive, does that mean the government should increase spending?
2. (25 points). Use the Mundell-Fleming model (i.e., open-economy IS-LM) to compare and contrast how Canada and China respond to USA monetary and fiscal policies. Use graphs to illustrate your answers. (Hint: Canada has a flexible exchange rate against the US dollar, and China has a fixed exchange rate).