United states dollar essay sample

Finance, Financial Analysis

1. Assume Yn = 11, 600, t= 0. 2 and G= 2610

(a) Compute the amount of taxes at natural real GDP

The amount of taxes at the natural real GDP is . 2 x 11600= 2320 (b) Explain why there is a natural employment deficit. Compute the amount of the natural employment deficit in terms of both billions of dollars and as a percent of natural real GDP. Because based on the information in the question and answer to part A: 2320, we see that taxes(money coming in) is less than government spending of 2610. This creates a deficit of -290billion. Also, it can be explained as the natural employment deficit of -2. 5% (-290/11600=-0. 025) (c) Suppose the goal of fiscal policy makers is to reduce the size of the natural employment deficit to 1 percent of natural real GDP. Compute what the size of the natural employment deficit must be in terms of billions of dollars in order for fiscal policy makers to achieve their goal Policymakers would use the following to adjust the deficit from -2. 5 above to -1 percent -. 01×11600=-116billion

(d) Given no change in the tax rate, compute by how much fiscal policy makers must cut government spending in order to accomplish their goal. To reach the above -116billion deficit, policy makers would have to subtract the spending from the already known taxes of 2320-G- to = -116. 2320-2436 to =-116billion (e) Given no change in government spending, compute by how much fiscal policy makers must increase the tax rate in order to accomplish their goal. The new tax rate would be increased to . 215 with no change in spending. T(11, 600)-2610 to equal-116billion, . 215(11, 600)-2610=-116billion to match the answer in part d above

(f) Given the objective of fiscal policy makers, explain what action monetary policymakers must take for the actions of fiscal policymakers to have no effect on real income. Fiscal policy above shows ways of increasing taxes of decreasing spending to reduce the deficit, however monetary policy makers would have to reduce the interest rate to offset the actions of fiscal policy above. (g) Suppose that private saving increase as the interest rates increase. Given the fiscal monetary policy mix described in parts c-f, explain whether the national saving increases by an amount that is larger than, equal to, or less than the decrease in the natural employment deficit. With the mix of policies from C-F, we can conclude that the combination of increased taxes, and lowering interest rates would mean that private savings would be reduced but national savings would increase to a level less than the decrease in the natural employment deficit.

3. Suppose that ex is the exchange rate between the US dollar and the Chinese yuan in that ex indicates the number of yuan that can be purchased with one dollar. The demand for dollars, denoted, D$, is given by the equation D$ = 2, 800 – 200ex. The supply of dollars, denoted, S$, is given by the equation S$ = 400 + 100ex.

b. Graph the demand for dollars and supply of dollars against the exchange rate. What is the value of the equilibrium exchange rate?

The equilibrium exchange rate is at 8 as indicated on the graph.

C. Suppose the demand for dollars increases by 300 billion at each exchange rate. Explain if the increase in demand results from a large purchase by the

Chinese of a new American-made airplane or a large purchase by Americana’s of new lower priced Chinese-made high definition televisions. Calculate the new demand for dollars at each exchange rate and graph the new demand curve. What is the new equilibrium exchange rate, given the original supply of dollars? This would result from a large purchase by China of a new U. S. made airplane due to the fact C hina would be demanding more U. S. dollars in order to make the purchase.

D. Suppose the supply of dollars increases by 600 billion at each exchange rate. Explain if the increase in demand results from a large purchase by the Chinese of a new American-made airplane or a large purchase by Americana’s of new lower priced Chinese-made high definition televisions. Calculate the new supply of dollars at each exchange rate and graph the new supply curve. What is the new equilibrium exchange rate, given the original demand for dollars?

This would result from a large purchase by the U. S. of new lower priced Chinese-made high definition televisions due to the fact the U. S. would be demanding more dollars in order to make the purchase.