

Class Exercises: Macroeconomic Model

I. Using the One Year Model, build a *Simple Macroeconomic Model* for an economy with a GDP of \$10,400 Billions [*Remember: Econ 101 Rule applies for building such an economy*]. Fill in the following table with your answers.

Change Exogenous Variables	
M	
G	
<u>GDP@FULL</u>	
<u>R@ROW</u>	
<u>GDP@ROW</u>	

II. ***Rest-of-the World Slowdown Experiment***: Using the original One Year base economic model (GDP = \$7000 Billions), build an economy, which is affected by a sharp slowdown in Rest-of-the-World (say China has a hard landing coupled with SARS, and a regime change that is hostile to trading). Decide which exogenous variable(s), if changed, would mean a China Slowdown. Defend your reasoning. (Hint: Don't do the econ 101 rule at present, just change the appropriate exogenous variables). Fill in the following table with your answers.

Change Exogenous Variables	
M	
G	
<u>GDP@FULL</u>	
<u>R@ROW</u>	
<u>GDP@ROW</u>	