

EC 201: Principles of Macroeconomics

In class exercise: Savings, Investment, and the Financial System, Part 1

Fall 2021

Q1. GDP is \$12 trillion this year in a closed economy. Consumption is \$8 trillion and government spending is \$2 trillion. Taxes are \$0.5 trillion. What is the government budget balance? What is private savings? Also, verify that the Saving-Investment spending identity holds.

Q2. Assume the economy is open to capital inflows and outflows and therefore net capital inflow equals imports (IM) minus exports (X).

Suppose exports (X) = \$125m, Imports (IM) = \$80m, budget balance = \$200m, Investment spending (I) = \$350m. What is private savings?

Q3. The table below shows the percentage of GDP accounted for by private savings, investment spending, and net capital inflow in the economies of Capsland and Marsalia. Capsland is currently experiencing a positive net capital inflow and Marsalia, a negative net capital inflow. What is the budget balance (as a percentage of GDP) in both countries? Are Capsland and Marsalia running a budget deficit or surplus?

	Capsland	Marsalia
Investment spending as a percentage of GDP	20%	20%
Private savings as a percentage of GDP	10	25
Net capital inflow as a percentage of GDP	5	−2