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**Principles of Economics**

**Study Questions – Model 1**

An economy has consumption function  $C = 200 + .75Y$  and investment function  $I = 400$ . There is no government or foreign trade in this economy, and prices and interest rates are fixed.

- a) Calculate equilibrium values of GDP, consumption, and personal savings.

### Answers to Study Questions – Model 1

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a) Calculate equilibrium values of GDP, consumption, and personal savings.

Answers:

$$Y = C + I$$

$$Y = 200 + .75Y + 400$$

$$Y = 600 + .75Y$$

$$.25Y = 600$$

$$Y = 2400$$

$$C = 200 + .75(2400) = 2000$$

$$\text{Personal savings} = Y - C = 2400 - 2000 = 400$$