Macroeconomics Discussion Session Exercise #6

1. Explain the paradox of thrift and demonstrate it using a numerical example.
2. Outline Keynes’s critique of the neoclassical theory of saving and investment (fully explain).
3. Given the following values:

\[ mpc = 0.8 \quad Y_f = $2600 \quad Y_e = $2000 \]

Identify three types of fiscal policies to bring the economy to full employment and cite the impact on the government budget deficit (or surplus) in each case.