1. Assuming a closed economy with \( K = \bar{K} \) and \( L = \bar{L} \). Also assume that the marginal propensity to consume is 0.6. Using the graph with the national saving (S) and investment (I) to perform a policy analysis of a tax cut equal to $100 billion (i.e., \( \bar{T} \) decreases by $100 billion). Explain your graph carefully. What happens to the following items? Do they rise or fall? By what amounts?

   (a) Public saving.
   (b) Private saving.
   (c) National saving.
   (d) Investment.

2. Consider an economy described by the following equations: \( Y = C + I + G; \ Y = 5,000; \ G = 1,000; \ T = 1,000; \ C = 250 + 0.75(Y - T); \ I = 1,000 - 50r. \)

   (a) In this economy, compute private saving, public saving, and national saving.
   (b) Find the equilibrium interest rate.
   (c) Now suppose that \( G \) rises to 1,250. Compute private saving, public saving, and national saving.
   (d) Find the new equilibrium interest rate.

3. In the country of Wiknam, the velocity of money is constant. Real GDP grows by 5 percent per year, the money stock grows by 14 percent per year, and the nominal interest rate is 11 percent. What is the real interest rate?