

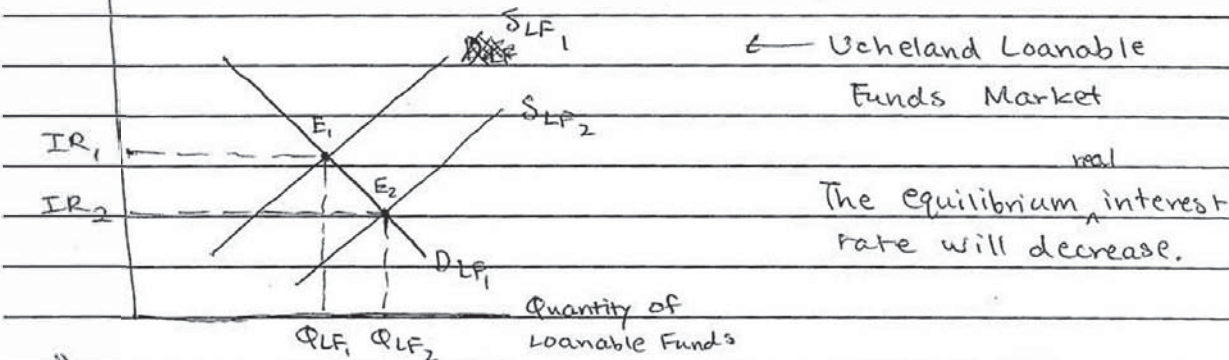
Question 2 Macroeconomics 2018

2A

ANSWER PAGE FOR QUESTION 2

a) Private savings in Uchelund will increase, as people ~~are~~ respond to the incentive of greater interest earnings after taxes.

b) Real Interest Rate



c) i) In the short run, the lower real interest rates will encourage investment, causing aggregate demand to increase.

ii) In the long run, the potential real gross domestic product in Uchelund will increase. This is because the increase in investment will increase the amount of capital in Uchelund, leading to a long-term increase in potential output.

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