

2. Assume the economy of Ucheland is currently at full employment. The government of Ucheland reduces the tax rate on household interest earnings.
- (a) What will happen to private savings in Ucheland?
 - (c) Given the real interest rate change identified in part (b), answer the following questions.
 - (i) What is the short-run effect on aggregate demand? Explain.
 - (ii) What is the long-run effect on potential real gross domestic product in Ucheland? Explain.
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