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?

   (b) Draw a correctly labeled graph of the loanable funds market, and show the effect of the change in private savings identified in part (a) on the equilibrium real interest rate.

   (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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3. Countries face trade-offs between producing consumer goods and producing capital goods.

   (a) Country X takes one hour to produce a unit of consumer goods and two hours to produce a unit of capital goods. Country Y takes two hours to produce a unit of consumer goods and four hours to produce a unit of capital goods. Which country has a comparative advantage in the production of consumer goods? Explain.

   The following table shows labor-market data for Country X.

Employed	180,000
Frictionally unemployed	10,000
Structurally unemployed	5,000
Cyclically unemployed	5,000
Not in the labor force	100,000

   (b) Calculate the unemployment rate in Country X. <u>Show your work.</u>

   (c) Calculate the labor force participation rate in Country X. <u>Show your work.</u>