5. Suppose the Republican ticket of George W. Bush and Dick Cheney wins the 2000 election and immediately cuts the capital gains tax (tax paid on saving) from 20% to 10%. The following asks you to assess the long-run implications of this policy.

a. Using the saving-investment diagram of chapter 22, show the effect of this policy on the equilibrium interest rate $R$. As a result, what would happen to the national saving share ($S/Y$), investment share ($I/Y$) and net export share ($X/Y$).

b. Given the change in the investment share ($I/Y$) in part a, what would be the effect on the stock of capital?

c. Using the answer from part b and the labor market diagram of chapter 21, show the effect of this policy on the equilibrium real wage and quantity of labor.

d. Using the answer from parts b and c and the production function diagram of chapter 23, show the effect of this policy on the level of output.

6. Suppose the Democratic ticket of Al Gore and Joseph Lieberman wins the 2000 election and immediately raises government spending on a whole range of projects. The following asks you to assess the long-run implications of this policy.

a. Using the saving-investment diagram of chapter 22, show the effect of this policy on the equilibrium interest rate $R$. As a result, what would happen to the national saving share ($S/Y$), investment share ($I/Y$) and net export share ($X/Y$).

b. Given the change in the investment share ($I/Y$) in part a, what would be the effect on the stock of capital?

c. Using the answer from part b and the labor market diagram of chapter 21, show the effect of this policy on the equilibrium real wage and quantity of labor.

d. Using the answer from parts b and c and the production function diagram of chapter 23, show the effect of this policy on the level of output.