

(i) Equilibrium income refers to the state at which aggregate quantity supplied is equal to aggregate quantity demanded. It is usually stable provided that the various factors involved do not change. It is calculated using the formula, $GDP = Y = C + I + G + (X - M)$, where C is consumption, I is investments, G is government spending and X-M is exports minus imports. This can be formulated when one knows the parameters to be used in the calculation.

So, $Y = c_0 + c_1 y_d + I_0 + G_0 + X_0 - m_0 - m_1 y_d$

(ii) Multipliers can be calculated to analyze the effects of fiscal policy, or other exogenous changes in spending, on aggregate output.

Cost multiplier $m_c = 1 / (1 - c_1(1 - t))$

Tax multiplier $m_t = m_c * c_1 = c_1 / (1 - c_1(1 - t))$

(iii) If an increase in German government spending by €100, with no change in taxes, causes German GDP to increase by €150, then the spending multiplier is 1.5. Other types of fiscal multipliers can also be calculated, like multipliers that describe the effects of changing taxes (such as lump-sum taxes or proportional taxes).