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Spring 2004, Intermediate Macroeconomics, section 1

ECON 219 Quiz II

General recommendations:

- Read questions thoroughly.
- Please respond on this copy.
- You have 20 minutes.
- Work individually.
- There are two pages.
- Good luck!

Your name:

1. Circle the appropriate answer on each of the following items. Circle multiple items if necessary:
 - (a) In an international comparison, which of the following is true:
a) investment is procyclical; b) exports are countercyclical; c) employment fluctuates more than average hours; d) imports fluctuate more than GDP.
 - (b) We assume leisure is a normal good. This implies that:
a) an increase in taxes increases demand for leisure; b) households maximize utility; c) preferences over consumption are well-defined; d) an increase in wages increases demand for leisure.
 - (c) Indifference curves as we have assumed them have in the (consumption,leisure) space the properties of being:
a) sloping downward; b) sloping upward; c) bowed out of the origin; d) bowed towards the origin.
 - (d) The Solow residual is a measure of:
a) average labor productivity; b) average capital productivity; c) total factor productivity d) the rate of growth of real GDP.
2. The current federal administration has reduced taxes. Within the model that we used so far, what impact does this have on consumption demand and the labor supply? Explain.

3. Explain the fundamental difference between a pure income effect and a substitution effect.

4. Explain what the wage w exactly measures in our model.

5. Explain what the decreasing marginal productivity of labor means.

Bonus question: Explain why governments cannot have a deficit in our model.