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Fall 2005, Intermediate Macroeconomics, section 3

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) An increase in taxes has the following impact on the budget constraint: 1) parallel move down; 2) parallel move up; 3) tilting to the left; 4) tilting to the right.

   (b) An increase in the use of capital by a firm: 1) increases marginal capital product; 2) decreases marginal capital product; 3) increases marginal labor product; 4) decreases marginal labor product.

   (c) If a good is normal: 1) its demand increases with its price; 2) households want to use an average amount of it; 3) it is a substitute, but not a complement to other goods; 4) its demand increases with an increase in household income.

   (d) We use the concept of a representative agent (household or firm) because: 1) we live in a democracy; 2) it is simpler; 3) distribution does not matter for our purposes; 4) there is not that much variation across agents anyway.

2. What stylized fact has changed over time and how?

3. Why is the production function concave?

4. Why are indifference curves convex?

5. What do we know about the marginal rate of substitution at the optimal choice of the household?

Bonus question: In class, we saw that the budget constraint is a straight line in the (c, ℓ) space. Provide examples of what could have it be non-linear, i.e. with changing slopes, kinks and discontinuities.