

University of Connecticut  
College of Arts and Sciences  
Department of Economics  
Christian Zimmermann

**Fall 2009, 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) Looking at the cyclical behavior of prices over the last century, we can say: 1) they have always been procyclical; 2) they have always been countercyclical; 3) their co-movement has changed; 4) their co-movement is stable.
  - (b) Which of the following are valid arguments of a production function (even if we may ignore them in our current analysis): 1) public capital; 2) business loans; 3) labor; 4) land.
  - (c) If capital increases: 1) labor demand increases; 2) labor demand decreases; 3) labor supply increases; 4) labor supply decreases.
  - (d) Households are maximizing their utility given: 1) a borrowing constraint; 2) a time constraint; 3) a budget constraint; 4) a marginal constraint.
2. What happens to labor supply when taxes increase? Why?

3. List the assumptions we make about household preferences.
4. Suppose the firm has to pay a lump sum tax. What impact does this have on its labor demand? Why?
5. Explain why the production function is concave. What does this mean in economic terms?

Bonus question: Suppose that the household does not pay a lump-sum tax, but rather a progressive tax on labor income. Show how the budget constraint would look like in the  $(C, \ell)$  space.