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Fall 2004, Intermediate Macroeconomics, section 3

ECON 219 Quiz IV

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) The Ricardian Equivalence holds if:
 - 1) there are distortionary taxes; 2) there are credit constraints; 3) the government has budget deficits; 4) taxes are lump-sum.
 - (b) Aggregate supply increases if:
 - 1) government expenses increase; 2) total factory productivity increases; 3) unemployment decreases; 4) the money supply increases.
 - (c) Investment demand increases if:
 - 1) current capital increases; 2) current capital decreases; 3) current total factor productivity increases; 4) future total factor productivity increases.
 - (d) What raises permanent income:
 - 1) lower future taxes; 2) higher current taxes; 3) higher current wages; 4) lower future wages.
2. Explain why consumption demand decreases with the interest rate.
3. Why does the residual value of future capital enter into future profits?

4. Explain the law of motion of capital, i.e. what future capital is as a function of current capital.

5. How does the labor market influence the goods market?

Bonus question: One of the experiments we ran in class is an increase in future total factor productivity (z'). Given that this increase is fully anticipated, how can we rationalize such an increase “in real life”.