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Fall 2004, Intermediate Macroeconomics, section 4

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 does not hold 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 is increasing in the interest rate because:
   1) labor demand is decreasing in the interest rate; 2) labor demand is increasing in the interest rate; 3) labor supply is increasing in the interest rate; 4) labor supply is decreasing in the interest rate.

   (c) The Ricardian Equivalence implies that:
   1) the level of government spending has no impact; 2) the level of taxes has no impact; 3) the distribution of government expenses through time has no impact; 4) the distribution of taxes has no impact.

   (d) Permanent income is:
   1) the lowest income over all years; 2) the constant income correponding to lifetime wealth; 3) social security benefits; 4) the trend of income.

2. Explain why investment demand decreases with the interest rate.

3. Why is aggregate supply increasing in the interest rate?

4. Explain in which way(s) investment is beneficial for the profits of the firm we modeled in class.

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

Bonus question: Suppose investment is subsidized. What curve is affected and how?