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Fall 2010, Intermediate Macroeconomics, section 4

ECON 2202 Quiz V

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, or none:
 - (a) If the government decides to delay some taxes,
 - a) aggregate output demand increases; b) aggregate output supply increases;
 - c) aggregate output demand decreases; d) aggregate out supply decreases.
 - (b) Destruction of capital through a hurricane leads to
 - a) more investment demand; b) less investment demand; c) more labor demand; d) less labor demand.
 - (c) In response to an increase in current taxes,
 - a) consumption demand increases; b) consumption demand decreases; c) labor supply increases; d) labor supply decreases.
 - (d) In a (C, C') graph,
 - a) a borrower is to the left of the endowment point; 2) the endowment point is in the exact middle; 3) a lender is to the left of the endowment point; 4) a lender has higher life-long wealth.
2. Explain in words only why the aggregate supply is upward sloping.

3. Explain what we assumed about the relationship between government expenses and the real interest rate and why.

4. If there is a tax cut today, what does the scenario (model experiment) need to specify as well, and why?

5. What happens to the labor supply if there is a tax cut in the future? Why?

Bonus question: Show how the residual value of capital in period two is equal the the present value of future profits for a model with more than two periods.