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Fall 2002, Intermediate Macroeconomics, section 3

ECON 219 Quiz II

General recommendations:

- Read questions thoroughly.
- Work individually.
- Please respond on this copy.
- There are two pages.
- You have 20 minutes.
- Good luck!

Your name:

- 1. Circle the appropriate answer on each of the following items:
 - (a) Consumption is: procyclical, acyclical, countercyclical.
 - (b) Prices are: procyclical, acyclical, countercyclical.
 - (c) Durable consumption is: more volatile, about as volatile, less volatile than GDP.
 - (d) Employment is: more volatile, about as volatile, less volatile than GDP.
 - (e) Residential investment is: leading, contemporaneous to, lagging the cycle.
- 2. Explain why a pure positive income shock always leads to an increase in leisure.

3.	Suppose a new policy is introduced that forces all households to buy governmen bonds proportionally to their wage income. What is the consequence on their optimal consumption and leisure?
4.	Explain why the production function is assumed to be concave.
5.	Explain what constant returns to scale means.