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

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ECON 219 Quiz VI

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) In the Keynesian sticky wage model, unemployment refers to:
   a) the numbers of workers receiving unemployment insurance compensation; b)the number of workers who stop looking for work because they believe they will not find work; c)the difference between labor supply and labor demand at the sticky wage; d) the difference between labor supply and labor demand at the market clearing wage.

   (b) To support the argument for an active role for government in stabilizing the economy, it must be true that:
   a) consumers are not rational and that not all wages and prices are flexible; b) not all wages and prices are flexible and that government must be able to react quickly enough; c) government must be able to react quickly enough and that shocks to the economy be primarily due to aggregate supply shocks; d) shocks to the economy be primarily due to aggregate supply shock and that consumers are not rational.

   (c) In the Friedman-Lucas money surprise model, a surprise increase in the money supply:
   a) increases the consumer's estimate of the real wage and increases the actual real wage; b) increases the consumer's estimate of the real wage and decreases the actual real wage; c) decreases the consumer's estimate of the real wage and increases the actual real wage; d) decreases the consumer's estimate of the real wage and decreases the actual real wage.

   (d) In the coordination failure model and compared to the 'bad' equilibrium, the 'good' equilibrium has:
   a) a higher r and a higher Y; b) a higher r and a lower Y; c) a lower r and a higher Y; d) a lower r and a lower Y.

2. Explain why the concept of sun spots is used in the coordination failure model.

3. List the differences in the assumptions between the sticky wage model and the money surprise model.

4. Assume that in the sticky wage model there is an unexpected improvement in contemporary technology. Draw the change in the three markets.

5. Give arguments why wages would be sticky.