

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

Fall 2003, Intermediate Macroeconomics, section 2

ECON 219 Quiz II

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) We assume that the representative consumer's preferences exhibit the properties that
 - 1) they evolve over time; 2) more is always preferred to less; 3) the consumer prefers diversity; 4) consumption and leisure are normal goods.
 - (b) A consumption bundle
 - 1) is a particular combination of consumption and leisure; 2) only measures a quantity of goods and services, but not the amount of leisure; 3) is a method of bringing home consumption goods; measures the quality of a particular good.
 - (c) In macroeconomic analysis, the representative consumer
 - 1) denotes the consumer with the average amount of income; 2) plays the role of a stand-in for all consumers in the economy; 3) is the consumer who bargains with firms for all workers in the economy; 4) is elected to decide on government policy.
 - (d) The real wage denotes
 - 1) the number of units of consumption goods that can be exchanged for one unit of labor time; 2) the number of units of labor time that can be exchanged for one unit of labor time; 3) the number of units of labor time that can be exchanged for one unit of leisure time; 4) the number of units of leisure time that can be exchanged for one unit of labor time;
2. Say firms distribute more dividends. What is the impact on the labor supply of households? Why?

3. In the theory we discussed in class, households pay a lump-sum tax T which is independent of any of their leisure or consumption choices or of the wage. Say that the tax kicks in only once a particular level of labor income has been reached. What does the budget constraint look like now?

4. Look at the production schedule below. What assumption about a firm's production function does it violate? Explain.

Number of	
Workers	Outputs
0	0
1	45
2	80
3	100
4	130
5	165

5. Take the firm problem. Show graphically what the impact on labor demand is when all inputs but labour double.

Bonus question: Suppose that a new tax is introduced: the firm has to pay a proportional tax on all its revenue. What is the impact on labor demand? On labor supply?