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**Fall 2004, Intermediate Macroeconomics, section 4**

## **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) In an international comparison, which of the following is true:  
a) government expenses are procyclical; b) investment is more volatile than GDP or GNP; c) exports are acyclical; d) wages are countercyclical.
  - (b) We assume about labor that:  
a) it is the only essential factor for production; b) that its marginal product is positive; c) the firm will always want more of it; d) it includes human capital.
  - (c) We use indifference curves because:  
a) households on average do not care; b) they help represent preferences; c) households make mistakes; d) they formalize the production process.
  - (d) Capital,  $K$ , encompasses:  
a) machinery; b) factories; c) residential houses; d) know-how.
2. Suppose firms have suddenly less capital at their disposal. What happens to the labor demand?

3. Why does the income effect increase leisure demand when wages increase?
4. Explain why firms hire up to the point where the marginal product of labor equals the wage.
5. Explain what we mean when we say that household prefer diversity.

Bonus question: Imagine that businesses start getting taxed, thus reducing dividends, while the government maintains its budget constraint. Within our current theory, what would this mean for consumption demand and labor supply? Why?