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Fall 2010, Intermediate Macroeconomics, section 4

ECON 2202 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) Which of the following US stylized facts also hold true for other developed economies? 1) consumption is procyclical; 2) investment is very volatile; 3) prices are countercyclical; 4) employment is procyclical.
 - (b) The labor supply is upward sloping because: 1) leisure is a normal good; 2) the substitution effect dominates; 3) the income effect dominates; 4) firms maximize profits.
 - (c) If household taxes increase: 1) labor demand increases; 2) labor demand decreases; 3) labor supply increases; 4) labor supply decreases.
 - (d) The production function is: 1) increasing in labor; 2) convex in labor; 3) increasing in capital; 4) convex in capital.
2. What happens to the labor supply when there is a drop in dividends? Why?

3. List the assumptions we make about household preferences.

4. Explain why indifference curves are not straight lines.

5. Explain why the budget constraint may have a kink when graphed.

Bonus question: Why could we perform the determination of labor demand while neglecting capital costs?