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Spring 2004, Intermediate Macroeconomics, section 1

ECON 219 Quiz III

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) The government's intertemporal budget constraint states that:
 - 1) taxes must equal government spending every period;
 - 2) the present value of government spending must be equal to the present value of consumers' disposable incomes;
 - 3) the present value of government spending must be equal to the present value of taxes;
 - 4) government may run deficits every year, as long as they are small enough.
 - (b) Permanent income is:
 - 1) the minimum income obtained throughout a lifetime;
 - 2) income that cannot be taxed;
 - 3) income that cannot be lent;
 - 4) the constant income corresponding to lifelong wealth.
 - (c) At the endowment point, we have the property (properties) that:
 - 1) $c = c'$;
 - 2) $c = y - t$;
 - 3) $y - t = y' - t'$;
 - 4) $c' = y' - t'$.
 - (d) An increase in first period income results in:
 - 1) a decrease of savings;
 - 2) an increase in savings;
 - 3) an increase in first period consumption;
 - 4) an ambiguous change in first period consumption.
2. Could a borrower become a lender when the interest rate increases? Why, or why not?

3. In our two-period model, why does the government not issue a bond in the second period?
4. In the c, c' space, explain why indifference curves have the shape we assumed.
5. Give two reasons why the Ricardian equivalence may fail.

Bonus question: Regarding the question above, for one of the reasons, explain why.