

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

Fall 2004, Intermediate Macroeconomics, section 3

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) A competitive equilibrium is Pareto optimal if there is no way to rearrange or reallocate goods such that:
 - 1) anyone can be made worse off; 2) anyone can be made better off; 3) someone can be made better off without making someone else worse off; 4) someone can be made better off without making everyone else worse off.
 - (b) In the one-period model, if government expenses (or taxes) increase:
 - 1) consumption increases; 2) consumption stays constant; 3) consumption decreases a little; 4) consumption decreases a lot.
 - (c) If the interest rate increases, lifetime wealth (we):
 - 1) increases; 2) stays constant; 3) decreases; 4) changes in an ambiguous way.
 - (d) An decrease in second period income results in:
 - 1) a decrease of current consumption; 2) an increase in current consumption; 3) an increase in future consumption; 4) an ambiguous change in future consumption.
2. Explain why, in a (C, C') , that is present and future consumption, space, indifference curves need to be curved like this:



3. In our two-period model, explain why the budget constraint always passes through the endowment point, whatever the interest rate.
4. Explain how the production possibilities frontier is obtained.
5. Explain how the intertemporal budget constraint is obtained.

Bonus question: Say current income increases by x . How does its impact on current income compare to the impact of a x increase of future income on future consumption?