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Fall 2004, Intermediate Macroeconomics, section 4

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) In the competitive equilibrium of a one-period economy with leisure choice: 1) the wage equals the marginal rate of substitution between consumption and output; 2) the wage equals the marginal rate of substitution between comsumption and leisure; 3) the wage equals the marginal productivity of labor; 4) the wage equals total factor productivity.

   (b) In the one-period model, if total factor productivity increases: 1) consumption increases; 2) consumption stays constant; 3) consumption decreases; 4) consumption changes in an ambigupus way.

   (c) If current disposable income increases, current consumption: 1) increases a lot; 2) stays constant; 3) increases a little; 4) increases as much as current income.

   (d) In a general equilibrium model: 1) prices are endogenous; 2) all markets clear; 3) there are savings; 4) there are no fluctuations.

2. Explain how it came that the intertemporal budget constraint has no mention of savings.

3. Explain what a Pareto Optimum is.

4. For two households facing the same intertemporal budget constraints and preferences, show graphically how one could be borrowing while the other lends. Explain.

5. Why can we obtain results from the one-period model by just looking at the PPF and indifference curves, that is without looking at labor demand and labor supply?

Bonus question: Imagine we expand the two-period model to a n-period model, where n is much larger than 2. What would this change to the relationship between current consumption and current income?