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Fall 2006, Intermediate Macroeconomics, section 1

ECON 219 Quiz III

General recommendations:

• Read questions thoroughly.	• Work individually.
• Please respond on this copy.	• There are two pages.
• You have 20 minutes.	• Good luck!

Your name:

1. Circle the appropriate answer on each of the following items. Circle multiple items if necessary:

   (a) The PPF represents: 1) for a given wage, all possible outcomes; 2) the set of feasible outcomes; 3) given leisure, how much consumption a household wants; 4) the share of consumption in output.

   (b) The endowment point is the combination of current and future consumptions where: 1) both consumptions are the same; 2) current consumption equals current output less current government expenses; 3) no savings occur; 4) the interest rate equals zero.

   (c) A temporary shock to future income implies: 1) a smaller change in consumption; 2) a same-sized change to consumption; 3) a larger change in consumption, 4) we cannot tell.

   (d) An decrease in capital shifts the PPF: 1) up; 2) down; 3) to the left; 4) to the right.

2. Explain what happens to savings for a borrower when the interest rate goes up in the simple intertemporal model.

3. In the static model with the production possibilities frontier, explain what happens to employment after an increase in government expenses.

4. Explain what happens to current consumption for a lender when current taxes go down in the simple intertemporal model.

Bonus question: In the simple intertemporal model we have seen so far, how does output react to the interest rate?