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Spring 2004, Intermediate Macroeconomics, section 1

ECON 219 Quiz IV

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 a general equilibrium:
   1) all markets are in equilibrium; 2) supply is equal to demand for all goods; 3) supply is equal to demand in present value, but not necessarily in each period; 4) prices are exogenous.

   (b) Aggregate demand increases if:
   1) government expenses increase; 2) government expenses decrease; 3) firms produce more; 4) firms produce less.

   (c) Which curves will be affected by a change in capital K:
   1) labor demand; 2) labor supply; 3) aggregate (output) demand; 4) aggregate (output) supply.

   (d) Consumption demand is decreasing in the interest rate because a higher interest rate:
   1) makes savings more interesting; 2) decreases the present value of future disposable incomes; 3) decreases lifelong wealth; 4) decreases permanent income.

2. Explain why labor demand increases when current total factor productivity (z) increases.

3. What does the representative firm maximize?

4. Show the impact of an increase in future total factor productivity on the macroeconomy.

5. Why do we have to take into account of what is happening on the goods market to determine the equilibrium on the labor market?

Bonus question: What are the consequences of a change in the depreciation rate (say an increase) on investment demand? Why?