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Fall 2005, Intermediate Macroeconomics, section 3

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) With higher future taxes:
   1) current consumption declines; 2) current consumption increases; 3) current consumption is unchanged; 4) current consumption may go either way.

   (b) Firm discount future profits at the interest rate because:
   1) it is the interest rate on their debt; 2) it is the same rate as for households; 3) Ricardian equivalence holds; 4) it has to equal the marginal productivity of capital in equilibrium.

   (c) An increase in current total factor productivity z always:
   1) increases investment; 2) increases current output; 3) increases current labor; 4) decreases current labor.

   (d) In the model we have seen so far, who has an intertemporal budget constraint:
   1) households; 2) firms; 3) the government; 4) the labor market.

2. What are the marginal benefits of investment in the firm?

3. Explain why investment demand decreases with the interest rate.

4. Why does labor supply depend on the interest rate?

5. Why does labor demand <u>not</u> depend on the interest rate?

Bonus question: In the intertemporal model with investment, would it be possible to assume $G = T$? Why or why not?