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**Spring 2006, Intermediate Macroeconomics, section 2**

# 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 lower future government expenses:
   1) current consumption declines; 2) current consumption increases; 3) current consumption is unchanged; 4) current consumption may go either way.

   (b) In determining the benefit of additional investment to the firm, we consider:
   1) the marginal product of current capital; 2) the marginal product of current labor; 3) the marginal product of future capital; 4) the marginal product of future labor.

   (c) If the interest rate goes up, what happens to investment <u>demand</u>:
   1) it stays put; 2) it increases; 3) it decreases; 4) we cannot tell.

   (d) which of the following curves are affected by a change in current government expenses:
   1) labor supply; 2) labor demand; 3) consumption demand; 4) investment demand.

2. What distingushes a general equilibrium approach from a partial equilibrium approach?

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

4. Write down the government budget constraint for every period and then derive the intertemporal budget constraint.

5. Explain the difference between the direct and indirect effect on labor supply.

**Bonus question**: Explain why it is useful to have a residual value for capital in the second period.