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**Fall 2006, 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) For the firm, the marginal cost of investment is:  
1) 1; 2) 0; 3)  $d$ , the depreciation rate; 4)  $d + r$ , the depreciation rate plus the real interest rate.
  - (b) Future profits are discounted at the current interest rate because:  
1) that is the interest rate that the firm uses to borrow; 2) this is what shareholders care about; 3) this is what profits would earn if invested; 4) this corresponds to the growth rate of the economy.
  - (c) If the interest rate goes up, what happens to labor demand:  
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 capital:  
1) labor supply; 2) labor demand; 3) consumption demand; 4) investment demand.
2. Explain how household decisions affect the supply of goods.

3. Which curves are affected by an increase in current government expenses financed by future taxes?
  
  
  
  
  
  
  
  
  
  
4. List which exogenous variables shift investment demand.
  
  
  
  
  
  
  
  
  
  
5. What is the Ricardian Equivalence?

**Bonus question:** Assume that improvements in productivity increase profits. How does this affect the labor market?