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Spring 2004, Intermediate Macroeconomics, section 1

ECON 219 Quiz V

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) What characteristics do human and physical capital share?
a) Both are controlled by the government; b) Current costs are incurred for future benefits; c) the growth depends crucially on the growth of total factor productivity; d) the use of both exhibits rivalry.
 - (b) Which of the following policies would increase the growth rate of an economy in the endogenous growth model with human capital?
a) mandatory schooling; b) minimum wages; c) redistributive taxation; d) subsidies to education.
 - (c) The savings rate with the Modified Golden Rule is lower than with the Golden Rule because:
a) money distorts the equilibrium; b) households are impatient; c) taxes make people save more; d) the Golden Rule is unstable.
 - (d) The per-worker production function relates output per worker to:
a) the participation rate; b) capital per worker; c) hours per worker; d) production per worker.
2. Explain why we may have difficulties measuring human capital.

3. Explain what property the production function has at the Golden Rule, and why.

4. Why is the endogenous growth model called endogenous?

5. How can we still obtain sustained growth at the stable steady-state in the exogenous growth model? Explain.

Bonus question: We mentioned that another way to explain endogenous growth is to look at research and development. Sketch out how this could be done, that is: what are the main features and trade-offs the model economy would have.