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

## **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) Human capital is:
    - a) knowledge found in books; b) knowledge found in people; c) education; d) wealth.
  - (b) In the Solow growth model, the steady-state growth rate of per capital output can be increased by:
    - a) higher population growth; b) lower population growth; c) higher depreciation rate; d) lower depreciation rate.
  - (c) In the endogenous growth model with human capital, the steady-state growth rate of per capital output can be increased by:
    - a) more schooling time; b) less schooling time; c) higher school quality; d) lower school quality.
  - (d) Schooling is subsidized in the US:
    - a) so that the Golden Rule capital level can be reached; b) otherwise people would not get educated; c) because there is a constitutional right to education; d) because there is a positive externality from schooling.
2. Assume an economy is at the long run equilibrium with a savings rate below the Golden Rule. The depreciation rate decreases, but so that the savings rate still stays below the Golden Rule. What happens to steady-state consumption per capita?

3. Following up on the previous question: Show on a time line what happens to consumption per capita (i.e. also showing short term changes).

4. In an Solow growth with positive population growth, what is the growth rate of output, consumption and capital at the long-run steady-state equilibrium?

5. What property of human capital makes it so interesting in the context of endogenous growth modeling? Explain.

**Bonus question:** Taking the Solow growth model, how would its properties be modified if public capital were considered?