Name:

## QUIZ 5: Econ 102, Section 2

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Please answer the following 13  $\,$  questions for 50  $\,$  points. Be as BRIEF as you can. You h

ave 40 minutes.		
1.	(3 points) The prediction of a model is its Pareto Optimal Allocation. True, False, Discuss.	
2.	(3 points) Current consumption is increasing in second period income. True, False, Discuss. What about current savings?	
3.	(3 points) In the context of the one agent, one period model with leisure, what does the first welfare theorem tells us about what should policy do?	
4.	(4 points) In a two period model without leisure draw a graph with a situation where the household is a borrower. Then change its endowment in the second period so that it becomes a lender.	

5.	(3 points) Rank the volatility of GDP, Non-Durable Consumption and Services, and Consumer Durables.
6.	(4 points) What does the second welfare theorem say?
7.	(4 points) Describe as precisely as you can why taxes that are not lump sum induce a failure of the first welfare theorem.
8.	(3  points) Give an example of either adverse selection or moral hazard. Make sure you are saying which.
9.	(3 points) Explain briefly how an externality may make the equilibrium be a non Pareto Optimal allocation.

10.	(3 points) To a lender, a decrease in the interest rate produces a negative wealth effect. True? False? Discuss.
11.	(5 points) Describe the theoretical possibility of a pure tax cut (without any other government action). What about the theoretical possibility of a cut in the tax rate.
12.	(6 points) Imagine two societies where one has more consumption and less leisure than the other. Discuss how one could argue that one is in a better situation than the other.
13.	(6 points) In the context of the one period model with leisure, define a competitive equilibrium as carefully as possible and indicate the elements involved.