Name:

QUIZ 4: Macroeconomic Theory (Econ 102)

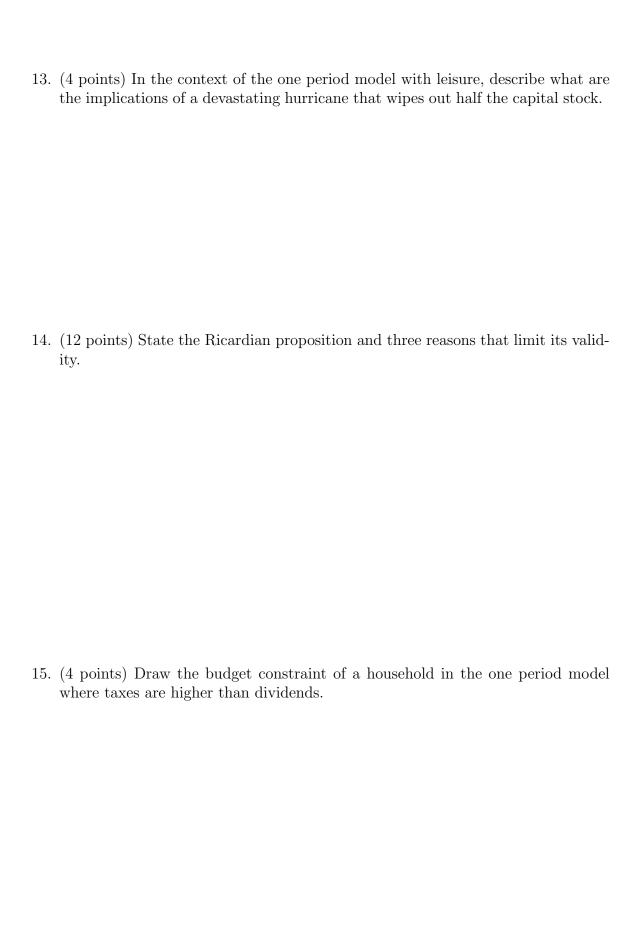**José-Víctor Ríos-Rull**

Please answer the following 9 questions for 50 points. Be as BRIEF as you can. You have 40 minutes.

1. (9 points) The prediction of a model is its Pareto Optimal Allocation. True, False, Discuss.

2. (6 points) Current consumption is increasing in total wealth. True, False, Discuss.

3. (6 points) Define steady growth and then indicate how an economy that is in this situation satisfies the Kaldor facts.

4. (6 point) Explain how an economy may experience a growth disaster in the context of the model with technological change.

5. (3 points) In the one period model write down the budget constraint of a household with wage w and dividends d when the government poses a proportional tax on consumption θ.

6. (6 points) State one reason why the fact that wages in manufacturing have gone down in the last 25 years need not mean that wages have gone down. Moreover indicate how could it be that nobody's wage need go down in the presence of such a large sectorial change.

7. (9 points) A Competitive Equilibrium is always good thing. True, False, discuss.

8. (6 points) In the context of the one period model with leisure, describe what are the implications of a general increase in lazyness (a change in preferences). What does the first welfare theorem tells us about what should policy do?

9. (4 points) What is the difference between endogenous and exogenous variables?

10. (4 points) In a two period model without leisure draw a graph with a situation where the household is a lender. Then change its endowment in the second period so that it becomes a borrower.

11. (4 point) An increase in the real interest rate increases future hours worked. True or false. Discuss briefly.

12. (8 points) In a two period model where consumers choose consumption and leisure in each of the two periods, the solution to the maximization problem can be found by solving some equations. What equations are they?

13. (4 points) In the context of the one period model with leisure, describe what are the implications of a devastating hurricane that wipes out half the capital stock.

14. (12 points) State the Ricardian proposition and three reasons that limit its validity.

15. (4 points) Draw the budget constraint of a household in the one period model where taxes are higher than dividends.

16. (5 points) Suppose that a consumer faces a wage of $2, in the first period of her life and of 4$ in the second period of her life. Suppose also that she chooses to work one unit of time in each period of her life, and that the interest rate is 100%. Calculate the consumption that she could obtain in the first period if she were to choose to consumption zero in the second period of her life.