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EE312 Macroeconomics, 1/2015 (Sec. 046402)
Problem Sets 2 : Ch.3 A Closed Economy One-Period Macroeconomic Model

Please submit at the BE office, 5th floor department of Economics building.
Deadline of submission : September 18, 2015, before 15.00 hrs.
Late submission will not be accepted.
*** Exam will consist of essay-type questions only.**

1. Suppose the government increases its spending on consumption goods. Use the Closed-Economy, One-Period Macroeconomic Model to determine the effects of the spending increase on aggregate output, consumption, employment and the real wage. Explain the chain of effects among variables correctly. Describe your analysis in words and use diagrams as needed. (Please attach a separate paper if the space provided is not enough.)

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2. Use the closed-economy, one period macroeconomic model to determine the effects of a decrease in total factor productivity on the aggregate output, consumption, employment and real wage. Use the appropriate graph and proper theory in explaining such phenomenon.

3. In one-period model, education can be represented as time spent by the representative consumer that is neither leisure nor time applied to producing output. What the economy gains in the future is that the representative consumer then has more time available, as measured in terms of effective units of labour time (adjusted for skill level, or what economists call human capital).

   (a) Using the one-period model, show what effects additional education has in the present on consumption, leisure, employment, aggregate output, and the real wage.

   (b) Similarly, show the effects of the additional education that people acquire today will have in the future consumption, leisure, employment, aggregate output, and the real wage.

   (c) What does your analysis in parts (a) and (b) have to say about trade offs society makes between the present and the future in investing in education.

4. Suppose that government spending makes private firms more productive; for example, government spedning on roads and bridges lowers the cost of transportation. This meas that there are now two effects of government spending, the first being the effects discussed in this chapter of an increase in G and the second being similar to the effect of an increase in the nation's capital stock K.

   (a) Show that an increase in government spending that is productive in this fashion could increase welfare for the representative consumer.

   (b) Show that the equilibrium effects on consumption and hours worked for an increase in government spending of this type are ambiguous but that output increases, You must consider income and substitution effects to show this.