

Student Number .....

Student ID.....

EE312 Macroeconomics, 2/2013 (Sec. 046402)  
Problem Sets 1 : Ch.3 A Closed Economy One-Period Macroeconomic Model

Please submit at the BE office, 5th floor department of Economics building.

Deadline of submission : February 4, 2014, before 15.00 hrs.

Late submission will not be accepted.

**\* Exam will consist of essay-type questions only.**

1. In a closed economy one-period model we have been studying, consumption ( $C$ ) is ..... (an exogenous variable, an endogenous variable) and total time available ( $h$ ) is ..... (an exogenous variable, an endogenous variable)

2. An economy without monetary exchange is called .....

3. A good is normal to a consumer if .....

4. A good is inferior to a consumer if .....

5. A lump-sum tax is the tax that .....

(Hint - choose one from the following choices: (i) can be avoid by strategic behaviour, (ii) does not depend on the economic behaviour of the agent being taxed, (iii) depend on income level, (iv) depend on time spent working)

6. Time-constraint for the consumer is expressed as  $h = \dots\dots\dots$ ,  
where  $h$  = total time available ,  $\ell$ = leisure time,  $N^S$  = time spent working

7. The real wage denotes .....

(Hint: choose one from the following choices: (i) the number of units of consumption goods that can be exchanged for one unit of labour time, (ii) the number of units of labour time that can be exchanged for one unit of consumption goods, (iii) the number of units of labour time that can be exchanged for one unit of leisure time, (iv) the number of units of leisure time that can be exchanged for one unit of labour time)

8. The budget constraint of the consumer is expressed as

$$C = \dots\dots\dots$$

$$C + w\ell = \dots\dots\dots$$

(a) With consumption on the vertical axis and leisure on the horizontal axis, the slope of the budget line is equal to .....

(b) The vertical intercept of the budget line is equal to .....

(c) How does an increase in the taxes affect the budget constraint? .....  
(Hint: choose one from the following choices: (i) a parallel move down, (ii) a parallel move up, (iii) a tilting to the left, (iv) a tilting to the right)

(d) The household budget constraint may have a kink because .....

(e) At the optimal consumption bundle, the marginal rate of substitution of labour for consumption ( $MRS_{\ell,C}$ ) is equal to .....

(f) The substitution effect measures ..... (Hint-choose from the following choices: (i) the response of quantities to changes in the relative price of goods (ii) the responses of relative price to changes in the demand for goods (iii) how two goods can be used for the same purpose (iv) the response of quantities to the changes in the relative quantities of two goods)





