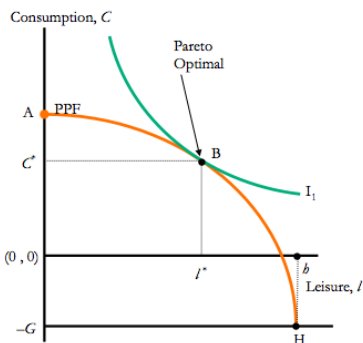
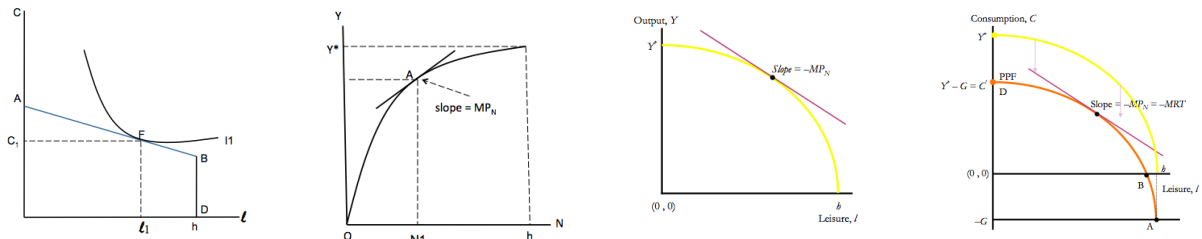
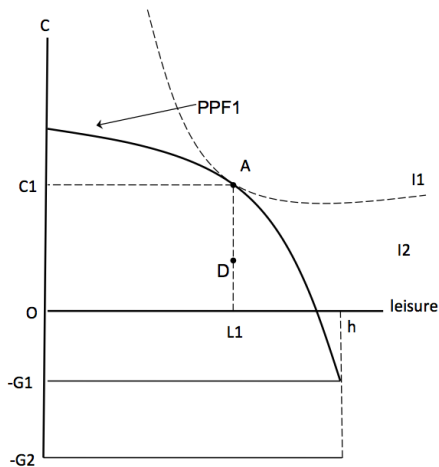


EE312 Macroeconomics, 1/2020 (Sec. 046401- Sicha)  
 Ch.7 A Closed Economy One-Period Macroeconomic Model (part 2)

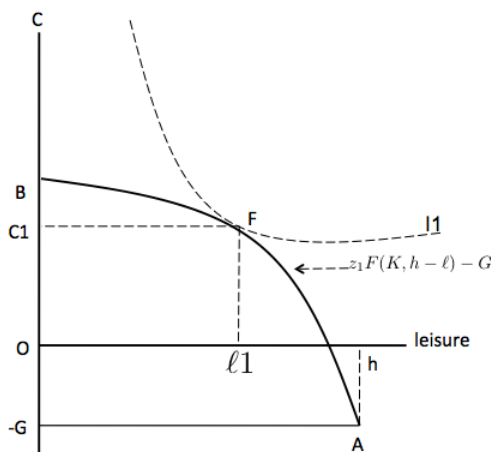


- Above point "B", real wage .....  $w^*$ , excess .....
- Below point "B", real wage .....  $w^*$ , excess .....
- At competitive equilibrium :

- Labor Market :
- Income Identity :
- Government budget Constraint :
- $\frac{MU_\ell}{MU_C} = MRS_{\ell,C} = w = MRT_{\ell,C} = MP_N = \frac{\partial Y}{\partial \ell}$



- Consider an  $\uparrow$  in  $G$  from  $G_1$  to  $G_2$  .
- $C$
- $\ell$
- $N$
- $G : \Delta G = \Delta T$
- $Y$
- $\Delta C$
- $\Delta Y$



- The production function rotates upwards with higher  $MP_N$
- **substitution effect and income effect :**
  - **substitution effect** :  $\ell$  ..... and  $C$ ..... ,
  - **income effect** :  $\ell$  ..... and  $C$ .....
- **Total Effect**  
 $C$ ..... (for sure) ,  $\ell$  depends  
 If  $SE = IE$ ,  $\ell$ ..... $N$  .....  
 If  $SE > IE$ ,  $\ell$ ..... $N$  .....  
 If  $SE < IE$ ,  $\ell$ ..... $N$  .....