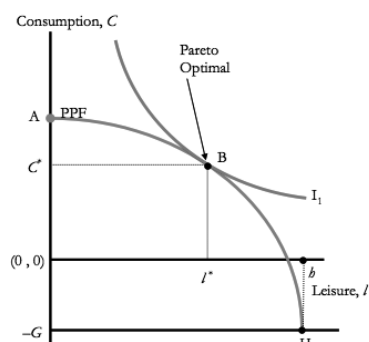
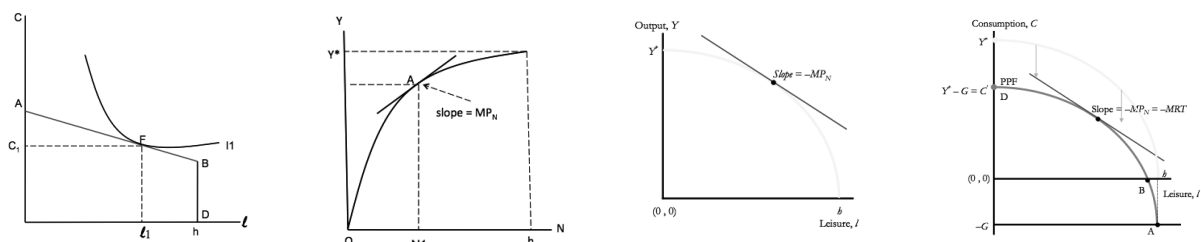


EE312 Macroeconomics, 2/2019 (Sec. 046402- Sicha)
Ch.7 A Closed Economy One-Period Macroeconomic Model (part 2)



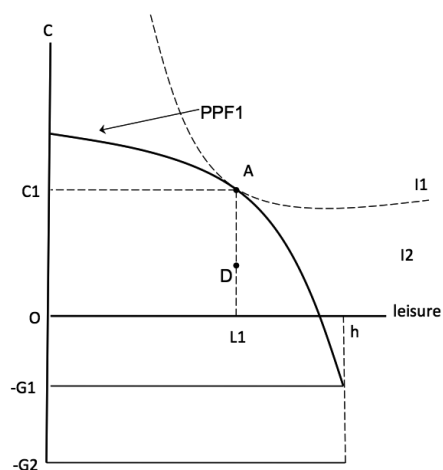
- Above point “B”, real wage w^* , excess
- Below point “B”, real wage w^* , excess
- At competitive equilibrium :

– Labor Market :

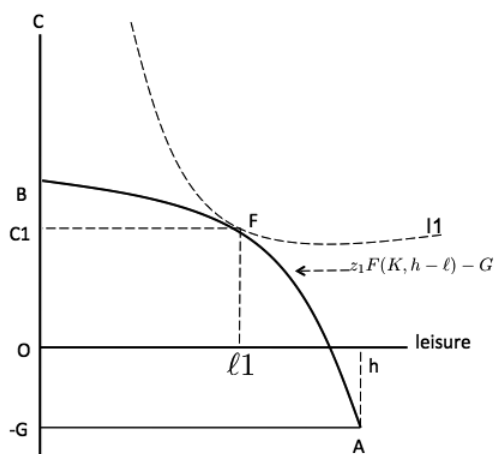
– Income Identity :

– 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
- ℓ
- N
- $G : \Delta G = \Delta T$
- Y
- ΔC
- ΔY



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