Econ 702
Spring 2020
C. Engel

Homework 7

Do problems 2, 4 and 5 at the end of chapter 18 from Garin, Lester and Sims. Here they are (with a correction to a typo that appears in question 2b in the book):

2. Consider the basic Neoclassical model. Suppose that there is an increase in θ_t.

   (a) Graphically analyze this change and describe how each endogenous variable changes.

   (b) Now, draw out two versions of the model, one in which labor demand is relatively elastic (i.e. sensitive to the real wage), and one in which labor demand is relatively inelastic (i.e. relatively insensitive to the real wage). Comment on how the magnitudes of the changes in Y_t, r_t, w_t and N_t depend on how sensitive labor demand is to the real wage.

4. Consider the basic neoclassical model. Suppose that there is a reduction in A_t. In which direction will P_t move? Will it change more or less if money demand is less sensitive to Y_t?

5. Consider the basic Neoclassical model. Graphically analyze the effects of:

   (a) An increase in G_{t+1}.
   (b) An increase in A_{t+1}.
   (c) A permanent increase in productivity (i.e. A_t and A_{t+1} increase by the same amount).

   In each case, clearly describe how each endogenous variable changes.