

Name _____

Quiz 10 (Chapter 5)

1. Set up the two period model with capital and fixed labor.
 - a. What is the role of β in the utility function?

2. Calculate the first order conditions needed to compute the equilibrium solution to this model.
 - a. Write the solution for the k_1 in terms of the model parameters.

3. Set up the utility function to compute the decentralized solution.
 - a. What is the combined budget constraint for the consumer?
 - b. Express this constraint in a way that shows that the present value of income = present value of expenditures.

4. Derive the supply and demand curves for capital in this simple two period model with capital.

5. Explain why the relative price of capital is $1+r$ in this simple model?