

Name _____

Quiz 11 (Chapter 6)

1. Explain why economists do or do not focus on each of the following when they search for the cause of business cycles.
 - a. Consumption spending

 - b. labor variables

 - c. investment spending

2. Why is analysis of the endowment y_0 useful to study business cycles?

3. Which is a better predictor of future GDP growth, employment growth, consumption spending or investment spending? Why do you think so?

4. Why do we rebate tax revenue back to the representative consumer in our models?
 - a. Why do we do it as a “lump sum” payment?

 - b. How would it change the analysis if we did not rebate the tax?

 - c. How would it change the analysis if we did not treat it as a lump sum tax?

5. What does the model of Chapter 5 say about the tax rate that maximizes government revenue?
 - a. Why should you mistrust this estimate? (Hint: the Lucas Critique. What would you expect to change in the model if the government raised the tax rate to maximize government revenue?)