Wilf Csaplar Jr.   Economics 302   Homework #2   **Due Wednesday 2/12**

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (15 points) Explain $Y=A*K^{0.3}N^{0.7}$. In addition to explaining the effects of A, K, and N, tell me why the 0.3 and the 0.7 are both less than 1.

2) (25 points) Draw the production function diagram with labor on the horizontal axis. Also draw the labor supply and demand diagram. Illustrate the effects of an increase in the amount of capital. Explain why the curve(s) moved as drawn. What happens to the real wage rate, the amount of labor hired, and the GDP?

3) (25 points) Draw the production function diagram with labor on the horizontal axis. Also draw the labor supply and demand diagram. Illustrate the effects of an increase in the expected future . Explain why the curve(s) moved as drawn. What happens to the real wage rate, the amount of labor hired, and the GDP?

4) (15 points) Draw the inter-temporal budget constraint. Illustrate the effects of an increase in the stock market. Explain why it moved as drawn.

5) (15 points) Draw the inter-temporal budget constraint. Illustrate the effects of an increase in the interest rate. Explain why it moved as drawn.

6) (5 points) According to Okun's Law, it is possible for both the unemployment rate to go up and GDP to go up. How can that happen?