Wilf Csaplar Jr.　　　　Economics 302　　　　Homework #3　　　**Due Tuesday 2/21**

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 10 points. 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 $C = b_P Y_P + b_T Y_T$. The $_P$ means permanent and the $_T$ means temporary. Also give estimates of b_P and b_T. Explain how you got those numbers.

2) (15 points) Draw the inter-temporal budget constraint. Illustrate the effects of the recent rise in the stock market. Explain why the curve moved as drawn.

3) (15 points) Draw the inter-temporal budget constraint. Illustrate the effects of the recent increases in the interest rate. Explain why the curve moved as drawn.

4) (20 points) Draw the graph for the life-cycle model of expenditures. Illustrate the effects of an unexpected bonus. Explain why the curve(s) moved as drawn. Does consumption change a lot or a little bit? Why?

5) (20 points) Explain Ricardian Equivalence. Do you feel it holds? Explain your logic.

6) (15 points) Explain how durable goods can cause the estimate of b_T in Question #1 to be inaccurate.