

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  $c = b_p y_p + b_T y_T$ . You do not need to explain  $b_p$  and  $b_T$  but you do need to give an estimated value and explain how you came up with that number.
- 2) (15 points) Draw the intertemporal budget constraint. Illustrate the effects of a crash in the stock market. Explain why the curve moved as drawn. What happened to the amount of consumption and saving this period? State how you reached your conclusion.
- 3) (15 points) Draw the intertemporal budget constraint. Illustrate the effects of an increase in the interest rate. Explain why the curve moved as drawn. What happened to the amount of consumption and saving this period? State how you reached your conclusion.
- 4) (25 points) Draw the graph for Modigliani's Life-Cycle Model. Illustrate the effects of a temporary pay cut. Explain why the graph changed as drawn. What happened to the amount of consumption and saving this period? State how you reached your conclusion.
- 5) (15 points) If Ricardian Equivalence holds, what would Trump's tax cut do to the total saving in the economy? Explain why that would occur.
- 6) (15 points) Do you feel Ricardian Equivalence is more likely to hold for a tax cut or an increase in government spending? Explain your logic.