ECO 305: Intermediate Macroeconomics **Your Name:** ______________________

In-class Exercise

Directions: Work in groups of up to four people and answer the following questions. All papers will be collected, but only one member's paper will be randomly selected and graded and all members of the group will receive the same grade.

By signing below, you agree that the following work represents the efforts of everyone in the group, and you are willing to accept as your own grade for the group project the grade earned from this representation of your group's work.

Signature Group Member 1	Print Name	Date
Signature Group Member 2	Print Name	Date
Signature Group Member 3	Print Name	Date
Signature Group Member 4	Print Name	Date

Directions: Use a dynamic, general equilibrium model of consumption, investment, employment and production to answer the following questions. Assume in your modeling that labor supply is very inelastic with respect to changes in real wages and real interest rates (therefore, if there are shifts in labor supply and labor demand, assume labor demand shifts by a greater amount). For each of the following scenarios, describe and illustrate the present day impact on the following:

- Consumption
- Investment
- Employment
- Production
- Real wage
- Real interest rate

1. Apple introduces a new product called the iPeed, available for sale immediately. The iPeed will revolutionize how people work and communicate, making it easier and more effective to work on the go and communicate with your co-workers.

2. Suppose consumer preferences change such that they are willing to work more to finance higher levels of consumption.

3. The government passes a bill to cut taxes today and finance it with gradual cuts to government expenditures in the future.

4. Suppose the government announces spending cuts government expenditures, with offsetting increases in government expenditures in the future. This cut in spending is not combined with any changes to taxes, neither in the present nor in the future.

5. Suppose it is expected that energy prices will increase in the future. If true, this will have a negative effect on the productivity of capital.