ECO 305: Intermediate Macroeconomics Week 2 Homework: Consumer and Firm Behavior

1. Suppose there is a decrease in stock market values, leading to a decrease in non-wage income for consumers. Describe and illustrate the impact on consumers' optimal choices for consumption, leisure, and labor supply. What is the impact on consumer welfare (i.e. consumer utility)?

2. Suppose the government improves public education services and increases taxes to finance it. Describe and illustrate the impact on consumers' optimal choices for consumption, leisure, and labor supply. What does the model predict is the impact on consumer welfare? What is useful and not useful about this conclusion of the model on consumer welfare?

3.	Suppose improvements in production methods lead to an increase in labor demand, leading eventually an increase in the real wage.
(a)	Describe and illustrate the impact on consumers' optimal choices for consumption, leisure, and labor supply. What is the impact on consumer welfare?
(b)	Describe intuitively the income and substitution effects on consumption and leisure.

(c) Describe and illustrate the income and substitution effects on consumption and lei	sure.								
4. Suppose there are global supply chain disruptions which make labor and capital less productive.(a) Describe and illustrate the impact on the production function									

(b)	Describe	and il	lustrate	the im	pact on	produc	eers' pr	ofit ma	ximizing	g choice	for labor.
(c)	Describe	and il	lustrate	the im	pact on	equilib	rium r	eal wag	e and re	al GDP.	