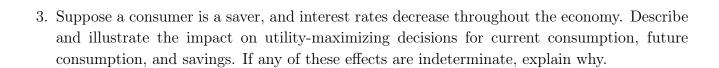**ECO 305: Intermediate Macroeconomics**   Name: _____
Homework Week 7: Consumption and Savings Model

Write your answers in the space provided or on your own paper. When you have finished, scan or take pictures of your work, combine all images to a single PDF file, assure that all pictures are oriented right-side up, and upload your work as a single PDF file to the Canvas Assignment area.

1. Suppose the economy dips into a recession, but it is expected to be short-lived, with a return to normal income levels in a year. Describe and illustrate the impact on utility-maximizing consumers' decisions for current consumption, future consumption, and savings. If any of these effects are indeterminate, explain why.

2. Suppose a consumer is a borrower, and interest rates decrease throughout the economy. Describe and illustrate the impact on utility-maximizing decisions for current consumption, future consumption, and savings. If any of these effects are indeterminate, explain why.

3. Suppose a consumer is a saver, and interest rates decrease throughout the economy. Describe and illustrate the impact on utility-maximizing decisions for current consumption, future consumption, and savings. If any of these effects are indeterminate, explain why.

4. Suppose consumer confidence improves and that consumers expect higher incomes in the future. Describe and illustrate the impact on utility-maximizing decisions for current consumption, future consumption, and savings. If any of these effects are indeterminate, explain why.

5. Suppose the government announces an increase in current taxes, but no change in future taxes, to fund a new government program that will result in higher government expenditures in the future. Use the intertemporal government budget constraint (equation 9-19 in text) and the intertemporal consumer's budget constraint (equations 9-11, 9-12) to describe the impact on consumers' lifetime income. Describe and illustrate the impact on current consumption, future consumption, and savings.

6. Suppose the government announces they will be scaling back a government program, which will result in lower government expenditures in the future. Suppose also that the government makes no changes to current taxes or current government expenditures. Use the intertemporal government budget constraint (equation 9-19 in text) and the intertemporal consumer's budget constraint (equations 9-11, 9-12) to describe the impact on consumers' lifetime income. Describe and illustrate the impact on current consumption, future consumption, and savings.