

Econ 116b
Problem Set 10

Alternative Theories

1. Is the Laffer Curve consistent with standard microeconomic theory of household behavior? Explain carefully.
2. What assumptions are needed in order for the quantity theory of money to hold? How do these assumptions differ from those behind the AS/AD model?
3. How are the policy properties of the Lucas supply function model affected by the assumption of how expectations are formed?
4. List the assumptions behind real business cycle theory. How would this theory explain the recent rise of the unemployment rate from about 5 percent to about 8.5 percent?

Growth Theory

1. In a Cobb-Douglas world, how much does the growth rate of output increase if the growth rate of labor increases by .5 percentage points?
2. Why are China and India growing so much faster than the United States and Europe?
3. How does an increase in the saving rate affect the growth rate of output? Why?