Macroeconomics - Homework #3

1. Computational part - 4 points:

Problem 1 - True-false questions for AS-AD model
Label each of the seven statements as true, false or uncertain and **justify your answers**.

- In the long run, prices and output always return to the same value.

- Fiscal policy cannot affect investment in the medium run because output always returns to its natural level (harder).

- Expansionary monetary policy has no effect on the level of output in the long run.

- In the absence of changes in fiscal or monetary policy, the economy will always remain at the natural level of output.

(Hint: use the IS-LM model)

Problem 2 - International trade and introduction of tariffs

The world price of athletic shoes is P_w as shown in the graph below of the domestic market for athletic shoes. Assume that domestic government imposes a tariff t to increase the price to the level P_t to protect domestic footwear producers. Demonstrate the following using the graph below:

- Identify the gains to domestic producers (as opposed to the case of international trade without tariff).

- Identify the costs to domestic producers (as opposed to the case without international trade).

- Identify the revenue to government

- Identify the loss to consumers.
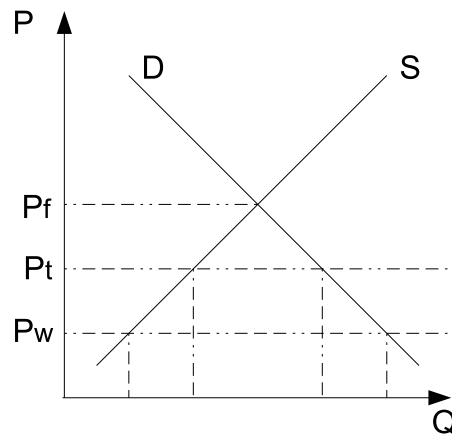
2. Reading part - 2 points:

On the website, I posted a chapter on "The Problem of Procrastination and Self-Control" from the book "Predictably Irrational" by Dan Ariely. In you essay (max 2 pages) I would like you to answer these questions

1. What is procrastination? Can you explain the relationship between this "micro" characteristics of people and macro outcomes of the economy?

2. What solution to the problem of procrastination does the author offer?

3. How does he apply it on the examples of health care and savings?

4. Do you consider his solution to be plausible / realistic?

If you like the article, maybe you will also enjoy his talk on irrationality
http://www.ted.com/talks/lang/eng/dan_ariely_asks_are_we_in_control_of_our_own_decisions.html
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Rules:

- For the computational part, you can work in groups - max 3 people in the group, 1 solution with all the names on it.

- For the reading part, everybody has to hand in his own essay (max 2 pages, 12pt, Times New Roman).

- Submission deadline - by email or on paper the day after last class - i.e. May 11, 23:55 :-). Please, submit the paper versions either to me personally, or to my mailbox on the second floor. For every day of delay (either computational or reading part not submitted), I subtract 1 point.

Good luck!