

Florida International University

ECO 4933 Topics in Theory – Fall 2015

Homework #1 – Answer Key

1. Of the seven stylized facts listed in chapter 1, choose at least three and briefly explain.

Answer: It depends on your choice of stylized facts.

2. Exercise #1

Answer: The policy permanently reduces the level of output per worker, but the growth rate of output per worker only declines temporarily. After the adjustment process is complete the growth rate will return to g .

3. Exercise #3

Answer: The final effect will depend on what the government does with the tax revenue. If the government consumes it or throws it away there will be less investment and the steady state capital per worker and income per worker will decline in the long run. But if the government decides to invest the tax revenue, the steady state values may remain the same.

4. Exercise #5

Answer: $s^* = \alpha$ and $MPK^* = n + \delta$