

1. Use the neoclassical theory of distribution to predict the impact on the real wage and the real rental price of capital of each of the following events:

- A wave of immigration increases the labor force.
- An earthquake destroys some of the capital stock.
- A technological advance improves the production function.
- High inflation doubles the prices of all factors and outputs in the economy.

6. According to the neoclassical theory of distribution, the real wage earned by any worker equals that worker's marginal productivity. Let's use this insight to examine the incomes of two groups of workers: farmers and barbers.

- Over the past century, the productivity of farmers has risen substantially because of technological progress. According to the neoclassical theory, what should have happened to their real wage?
- In what units is the real wage discussed in part (a) measured?
- Over the same period, the productivity of barbers has remained constant. What should have happened to their real wage?

8. The government raises taxes by \$100 billion. If the marginal propensity to consume is 0.6, what happens to the following? Do they rise or fall? By what amounts?

- Public saving
- Private saving
- National saving
- Investment

10. Consider an economy described by the following equations:

$$Y = C + I + G$$

$$Y = 5,000$$

$$G = 1,000$$

$$T = 1,000$$

$$C = 250 + 0.75(Y - T)$$

$$I = 1,000 - 50r$$

- In this economy, compute private saving, public saving, and national saving.
- Find the equilibrium interest rate.
- Now suppose that G rises to 1,250. Compute private saving, public saving, and national saving.
- Find the new equilibrium interest rate.

For 8 & 10
use Savings formulas
in text

$$C = 0.6(Y - T)$$