

# Jack Quinlan 13-18 Macro Test

Life cycle theory of consumption

Households make decisions based on expectations of lifetime income

What determines labor supplied of household?

- Wage rate
- Prices
- Wealth
- Non labor income

Real Wage

Nominal wage adjusted for price level

Why are wages sticky?

- Social contracts
- Explicit contracts
- Min. wage

Efficient wage theory

Worker productivity increases with wage

Non-labor income

- Inheritance
- Interest
- Dividends
- Transfers

Non labor  $\uparrow$  leisure  $\uparrow$  work  $\downarrow$

Substitution effect

$r \uparrow$  consumption  $\downarrow$

gov effect

$T \downarrow$   $c \uparrow$

Prime age to work

25 to 54

Animal spirits

Keynes term for investor's feelings

Accelerator effect

Tendency for investment to go up as output goes out

Inventory investment

The change in stock of inventories

End stock = beginning stock + production - sales

### Cost of unemployment

- Less consumption
- Less output
- Gov. loses revenue

### Okun's Law

Unemployment decreases 1% for every 3% increase in Y in the short run

Unemployment =  $1 - (\text{People employed} / \text{labor force})$

### What determines price of stock

- Future expectations
- Efficient market theory
  - Current price reflects all available info
- Random walk
  - Past info is useless in predicting price

### Lags in implementing policy

- Recognition
- Implementation lag
- Response lag

### Policy may be pro cyclical

### Black swan

1. Lies outside norm
2. Huge impact
3. Try to explain after but can't

### Physical capital

- House
- Plant
- Production stuff

### Human cap

- Skills
- Talents
- Knowledge

### Catch up theory

Growth rates of third world countries will exceed that of the first world in order to catch up

### Convergence theory

Nat income gap closes over time

### Simple production function

$$Y = 3k^{(1/3)} l^{(2/3)}$$

L = Q of labor

K = Q of Cap

Y = Output

Tells at one point in time how much you can produce

### Labor productivity

$y/l$

### Marginal tax rate

$\Delta T / \Delta I$

wage(1-mtr) = take home

consumption and savings depend on

- Current and expected wages
- Initial wealth
- Current and future non-labor incentive
- R

Embodied Tech Change

Change the results in change in the quality of cap

Disembodied tech change

Tech change that results in change in production process

Velocity of money

The number of times money changes hands

$$GDP/M=V$$

$$GDP=PY$$

$$MV=PY$$

Quantity theory of money

Based on  $MV=PY$  and the assumption that  $v$  is constant over time

Public choice

People are self interested

Participants in the political process

1. Voters
  - a. Demand
2. Special Interests
  - a. Demand
  - b. Maximize profits or benefits
3. Politicians
  - a. supply
  - b. Self interested
  - c. Take positions to max votes
4. Public employees
  - a. Supply
  - b. Agencies trying to max budget

Supply side econ

- Tax cuts over stimulus
- High on laffer curve

Tax Revenue

- $R=T \cdot B$

New classical Econ

- Doesn't equate for expectations

Median voter theorem

Under majority outcome most preferred by median voter is elected

Whoever is closer to middle wins

There is an incentive to run a deficit