

Quiz 1 — Remembering CKR

Questions	Answers
1. What is the point of having competitive markets?	☐ Every firm prices at its marginal cost. ☐ Every agent maximizes their utility. ☐ Every input is paid its marginal productivity. ☐ Every firm's cost can be written $c(q)q$.
2. The Euler equation gives (derivative in discrete time): $\frac{c_{t+1}-c_t}{c_t} = \frac{r_t-\rho}{\theta}.$	☐ A rise in r_t means it is more worthwhile to invest today and consume more tomorrow. ☐ $\rho = \frac{1}{1+\beta}$, with β the discount rate capturing the household's patience. ☐ Under logarithmic utility, θ equals 1. ☐ This equation governs the dynamics of the model.
3. The transversality condition differs from the solvency constraint because:	☐ Transversality holds only at the optimum, whereas solvency follows from the instantaneous budget constraint. ☐ Solvency states that my stock of assets is non-negative. ☐ Transversality rules out Ponzi schemes. ☐ None of the above.
4. When a shock is introduced at date t in the CKR model (a public spending shock, say):	☐ The capital stock varies discontinuously. ☐ Consumption varies discontinuously. ☐ I cannot answer without knowing whether the shock is anticipated by households or not. ☐ None of the above.

Questions	Answers
5. Which assumptions are made about markets?	☐ The labor market is competitive. ☐ The financial market is perfect. ☐ The goods and services market may be non-competitive.
6. A lump-sum tax:	☐ may be distortionary. ☐ does not depend on the individual characteristics of the agent. ☐ must be redistributed. ☐ None of the above.
7. A tax on labor income has no effect on household behavior at the steady state because:	☐ their utility only takes consumption into account. ☐ their labor supply is perfectly elastic. ☐ their labor supply is perfectly inelastic. ☐ It does have an effect, because the wage enters the household's budget condition.