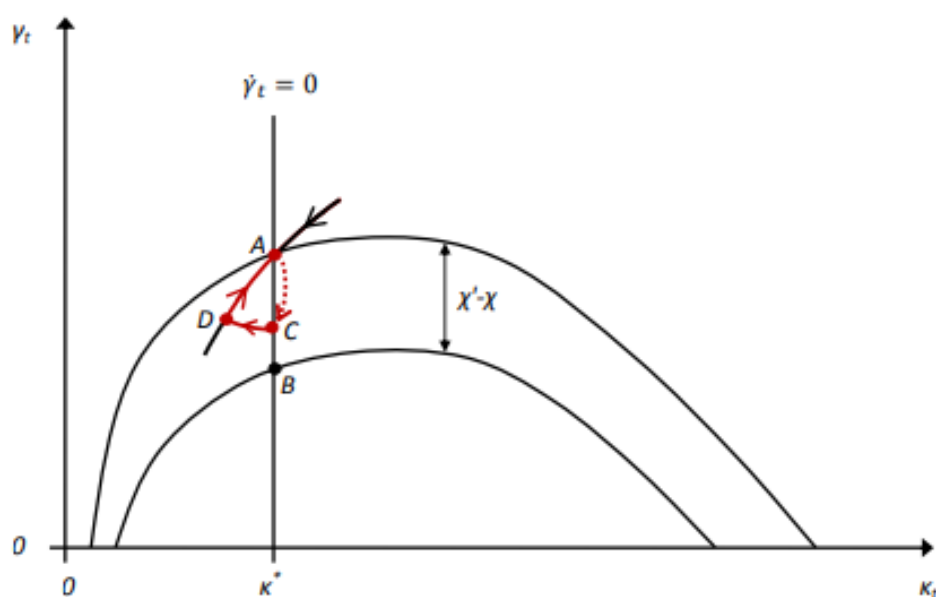


Quiz 9 — Fiscal policy in the CKR model

Questions	Answers
1. In the CKR model with fiscal policy, why would a perfectly anticipated fiscal policy cause no discontinuous jump in consumption?	☐ Consumption cannot vary discontinuously. ☐ Consumers optimize their intertemporal utility, so a perfectly anticipated future spending shock is already taken into account in their problem. ☐ Consumers prefer to smooth their consumption over time. ☐ None of the above.
2. Why is a lump-sum tax not distortionary?	☐ Because a lump-sum tax is the same for every consumer, whatever their characteristics. ☐ Because a lump-sum tax is <i>ad valorem</i> and therefore affects households' consumption choices. ☐ Since the tax is lump-sum, none of the household's state or control variables can change the amount of tax paid.
3. The government's instantaneous budget constraint is $D_{t+dt} - D_t = r_t D_t dt + G_t dt - T_t dt$. Then:	☐ G_t is the number of units of goods bought by the government between t and $t + dt$, T_t the number of units of goods collected in tax, and $G_t - T_t$ is the public surplus. ☐ G_t is the number of units of goods bought by the government between t and $t + dt$, T_t the number of units of goods collected in tax, and $T_t - G_t$ is the public surplus. ☐ G_t is the number of units of goods collected in tax between t and $t + dt$, T_t the number of units of goods bought by the government, and $G_t - T_t$ is the public surplus. ☐ G_t is the government's spending in euros between t and $t + dt$, T_t its revenue in euros, and $G_t - T_t$ is the public surplus. ☐ None of the above.
4. Introducing public spending (G_t) into the CKR model changes:	☐ None of the equations defining the phase diagram. ☐ The households' instantaneous budget constraint. ☐ The law of motion of capital. ☐ The accounting identity.

Questions	Answers
5. Ricardian equivalence says that:	☐ The effect of public spending on the economy depends on the way it is carried out. ☐ A lump-sum tax is equivalent to debt today repaid later by a distortionary tax. ☐ A lump-sum tax is equivalent to debt today repaid later by a lump-sum tax. ☐ Households do not correctly anticipate public spending.
6. Ricardian equivalence shows up in the CKR model with fiscal policy because:	☐ The government's budget constraint always balances its budget, whatever the type of spending or repayment. ☐ The households' instantaneous budget constraint has no term in T . ☐ The intertemporal budget constraint has no term in t_t . ☐ The present value of future income is net of tax.



Questions	Answers
7. After an unanticipated temporary rise in public spending, why do we move in this way from C (date T_1) to D (date T_2), as shown in the figure above?	☐ At T_2 we must be on the saddle path leading to A . ☐ At T_2 we should be back at A : this diagram is wrong. ☐ Between T_1 and T_2 , the quadrants defined by the upper bell-shaped curve apply: this diagram is wrong, because we should be heading south-west. ☐ Between T_1 and T_2 , the quadrants defined by the lower bell-shaped curve apply: this diagram is correct.