

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (20 points) Explain $c^f = y^f + (y + a - c)(1+r)$. For the “r”, it may be easiest to discuss two cases, one where $y+a > c$ and the other when $y+a < c$.
- 2) (15 points) Draw the inter-temporal budget constraint. Draw an increase in the future income. Explain why the curve moved as drawn.
- 3) (20 points) Draw the inter-temporal budget constraint. Draw an increase in the interest rate. Explain why the curve moved as drawn. Why is the effect upon current savings ambiguous?
- 4) (20 points) Draw the graph for Modigliani’s Life-Cycle Model. Draw the effects of the Bush/Obama stimulus packages. Explain why the curve(s) moved as drawn. What is the impact upon the economy?
- 5) (25 points) Draw the graph for Modigliani’s Life-Cycle Model. Draw the effects of a recession. Explain why the curve(s) moved as drawn. Given this graph, would you expect that savings would go up or down during a recession? Explain your logic.