ECO 305: Intermediate Macroeconomics **Your Name:** ______________________________
In-class Exercise

Directions: Work in groups of up to four people and answer the following questions. All papers will be collected, but only one member's paper will be randomly selected and graded and all members of the group will receive the same grade. By signing below, you agree that the following work represents the efforts of everyone in the group, and you are willing to accept as your own grade for the group project the grade earned from this representation of your group's work.

______________________________	______________________________	________________
Signature Group Member 1	Print Name	Date
______________________________	______________________________	________________
Signature Group Member 2	Print Name	Date
______________________________	______________________________	________________
Signature Group Member 3	Print Name	Date
______________________________	______________________________	________________
Signature Group Member 4	Print Name	Date

For the questions on the following pages, use a sticky-wage, dynamic, general equilibrium model of consumption, investment, employment, production, price level, and money to answer the following questions. Assume in your modeling that labor supply is very inelastic with respect to changes in real wages, real value of income, and real interest rates. For each of the following scenarios, describe and illustrate the short-run consequences on

- Consumption
- Investment
- Employment
- Unemployment
- Real wage
- Real interest rate
- Price level
- Production

1. Suppose the economy is at its full employment equilibrium. Describe and illustrate the effect of an decrease in the depreciation rate.

2. Suppose the economy is at its full employment equilibrium. Describe and illustrate the effect when consumers expect the stock market to lose value in the future (consequently, they expect a decrease in future dividend payments).

3. Suppose the economy is at a production level below its fully-flexible price outcome (potential GDP). Describe and illustrate the unemployment situation. Suggest a tax policy to reduce unemployment, increase consumer spending, and increase real GDP. Describe and illustrate the general equilibrium effects of your tax policy.

4. Suppose the aggregate production level for the economy is starting to move above its fully-flexible price outcome. This situation is the beginning a bubble, because the economy will be above its sustainable level, and will come down in the long-run as labor markets reach equilibrium. Describe and illustrate this situation, then suggest a monetary policy to bring real GDP back to potential GDP.