

- 1 Suppose current income increases for consumers, but there is no change in expected future income. Describe and illustrate the impact on current consumption, future consumption, and savings. If any of these effects are indeterminate, explain why.
- 2 Suppose the representative consumer is a borrower. Describe and illustrate the impact of an increase in the interest rate on current consumption, future consumption, and savings. If any of these effects are indeterminate, explain why.
- 3 Suppose the representative consumer is a saver. Describe and illustrate the impact of an increase in the interest rate on current consumption, future consumption, and savings. If any of these effects are indeterminate, explain why.
- 4 Suppose consumer confidence falls and that consumers expect lower incomes in the future. Describe and illustrate the impact on current consumption, expected future consumption, and savings. If any of these effects are indeterminate, explain why.

- 5 Suppose the government announces a decrease in current taxes in combination with an equivalent decrease in future government expenditures. Use the intertemporal government budget constraint (equation 9-19 in text) and the intertemporal consumer's budget constraint (equations 9-11, 9-12) to describe the impact on consumers' lifetime income. Describe and illustrate the impact on current consumption, future consumption, and savings.
- 6 Suppose the government increases government expenditures in the future period and makes no changes to current taxes or current government expenditures. Use the intertemporal government budget constraint (equation 9-19 in text) and the intertemporal consumer's budget constraint (equations 9-11, 9-12) to describe the impact on consumers' lifetime income. Describe and illustrate the impact on current consumption, future consumption, and savings.