

Bent E. Sørensen

ECONOMICS 7344 – MACROECONOMIC THEORY II, Spring 2004

Homework 4. Monday February 9, 2004. Due Monday February 16.

1. a) Derive equations (6.39) to (6.47) in the text. [If you want to prepare for the exams you should do this *without* looking in the book!]
b) Describe using words what happens to output when the demand elasticity (θ) increase. Explain why this happens.
c) Derive the derivative of Y with respect to γ . Interpret the sign in terms of economic behavior.
2. Romer 6.7.
3. Describe—using your own *words* (no equations!)—the workings of the Lucas imperfect information model. (Describe in words what is the agents objective, what are the shocks that affect the system, and what is the equilibrium outcome, and what are the implication for monetary policy.)