

This assignment is in two parts. For the first part you will answer a sequence of specific questions about the basic structure of the classical model. Despite the fact that this part of the assignment looks like typical “homework,” pay careful attention to your writing. Use good sentence structure, avoid redundancy, and strive for clarity. Make sure to edit your answers carefully before you turn in your assignment. I find it is best to write out answers somewhat before the due date and then come back with a fresh look for final editing.

The second part of the assignment asks you to summarize the basic classical model in a short, coherent essay. Much of the content of this essay will draw on the answers to the first-part questions. You will receive feedback and a grade on your first-part answers to help refine the essay. You may use text from your first-part answers in the second-part essay. But the second part of the assignment imposes a very tight word limit; you will likely need to pare down your text significantly from the first-part answers.

The first part counts for 30% of the total grade for the assignment. The second-part essay will be 70% of the assignment grade.

Part 1: Classical Model Questions: Due Monday, February 4

1. Describe how profit maximization by firms links labor demand to technology.
2. Explain how preferences between (a) consumption goods purchased with money earned from working and (b) the enjoyment of leisure time partially determine labor supply.
3. Define full employment in the context of the basic classical model. What is the key market mechanism that generates full employment in the model?
4. What determines the level of potential output? How does the concept relate to the phrase “tastes, technology, and resources?”
5. Define Say’s Law. Why is it significant for macroeconomics?
6. Carefully explain how interest rate adjustment in the loanable funds market establishes Say’s Law in the classical model.
7. What determines the price level in the model?

Part 2: Classical Model Summary Essay: Due Monday, February 20

Write an essay that explains the basic theoretical results of the classical macroeconomic model. Describe the main factors that drive macro activity in the model and explain how these factors lead to the key classical results. You may find it helpful to think in terms of the diagrams presented in class, but do not include any graphs in your essay. This essay should not discuss policy.

The following list contains concepts you should cover in your essay. The list is alphabetical. It is your job to organize your analysis of these concepts in a logically coherent way that emphasizes the most important points.

Aggregate demand	Preferences (or tastes)
Demand side	Price level
Equilibrium	Production function
Firm Behavior	Real wage
Full employment	Resources
Interest Rate	Saving
Investment	Say's Law
Labor productivity	Supply side
Labor supply	Technology
Loanable Funds	
Potential Output	

The audience for this assignment is students in the class. That is, assume that your audience knows some economics and understands the definition of basic economic concepts, but you should explain the ideas clearly for someone who is just beginning to understand this kind of analysis. Your objective is to demonstrate that you thoroughly understand the key results of the classical model.

Feel free to use the material you developed in the first part of the assignment. It is fine to use some of your best writing from the first part in the second-part essay. Of course, take into account any feedback you receive on your first-part answers. Recognize that the standard for writing and economic analysis will be higher in the second-part of the assignment.

Write clear sentences with an obvious logical structure. For this essay, we do not expect especially elegant writing. Rather strive for efficient, clear, accurate, and logical communication. Eliminate excessively wordy sentences. Watch out for redundancy; make sure that every sentence and phrase adds substance. Nonetheless, the writing should flow well. Pay careful attention to verbs and use passive verb constructions sparingly (is, was, to be, has been, etc.). You may choose to use an occasional passive verb, but you should make that choice consciously.

Write a brief introductory paragraph that motivates your reader and establishes the main ideas. The concluding paragraph should return to the main idea, but should add something to the reader's understanding of the classical model. It should not merely re-state the introduction or

mechanistically regurgitate points in the body of the essay. The body paragraphs should have a coherent structure with clear topic sentences.

Here is the biggest challenge. This essay *must be less than 500 words*. Provide a word count on the paper that you submit. No material will be graded beyond 500 words and you will receive a grade deduction for exceeding the limit. To meet the challenge imposed by this limit will require you to edit your essay carefully. If you provide excessive detail on some point, even though your discussion may be correct, you will crowd out the discussion of other, possibly more important, material. You need to set priorities. If you find that your early draft exceeds the length limit look for ways to communicate more efficiently or find less important details to cut.