

Economics 104B, Section 1 – Spring, 2013
Prof. Steve Fazzari
Homework Problems: Part 7

Note: These problem do not have to be handed in. They are for your practice and will greatly help to prepare you for the third exam. Solutions will be posted early in the reading week. It would be best for you to write out answers to these problems before looking at the solutions. But you are strongly encouraged to look carefully at the solutions prior to the final exam.

1. The U.S. economy has experienced substantial growth over the last century. Discuss the factors that led to this growth by summarizing the key determinants of potential output. You do not need to list every possible factor that affects Y^* , just summarize the major categories.
2. Summarize the logic of the supply-side economic policies pursued early in the Reagan administration. Do you think these policies were successful in improving the performance of the U.S. macro economy? Cite specific evidence from recent economic performance in the U.S.
3. It is conventional wisdom that higher saving makes individuals better off in the future. Describe in macroeconomic terms how higher saving can raise the welfare of the entire society. Use a "loanable funds market" graph that includes investment and saving curves in your answer.
4. Give a supply-side macroeconomic explanation for why higher saving by the baby boom generation today will make it easier for society to deal with the big increase in the retired population over the next several decades.
5. When the government budget deficit rises, many economists predict that private investment will be "crowded out." Use a loanable funds market diagram to demonstrate the crowding out phenomenon after an increase in the government budget deficit. Make sure that you clearly label the magnitude of investment crowding out.