12. Government Consumption and Public Services
14. The Public Debt

Exercise 12.1 (Barro 12.3)

Why does the real interest rate rise as a result of a temporary increase in government consumption?

Exercise 12.2. (Barro12.4.)

What is crowding out ? Does it involve an intertemporal substitution effect alone? Could there be direct substitution of government spending for private investment?

Exercise 12.3. (Barro 12.8.)
Suppose we include a labor market in the model.

a. What is the effect on the real wage rate from a temporary increase in government consumption?

b. What is the effect from a permanent increase in government consumption?

Exercise 14.1.

Suppose in year 1, the government decides to cut current, lump-sum taxes and runs a budget deficit. Assume that the real public debt remains constant in future years. Also, no changes occur in government purchases, G, or in real transfer.
Analyze the effect of the government's tax cut. How does the effect depend on:

a. Finite lifetimes

b. The existence of childless persons?

c. The possibility that the government will print more money in the future rather than levying future taxes?

d. The imperfection of private credit markets?