14.05 Midterm: practice questions

1. **Solow.**
   (a) What would be the effect of hurricane Katrina on growth in New Orleans, assuming that it destroyed a lot of capital but did not cause any migration?
   (b) How would your answer to (1) change if the hurricane caused migration?

2. **Ramsey.**
   Analyze the following events in the framework of the Ramsey model (what happens to the curves in the k-c space and to the dynamics of consumption and capital):
   (a) A permanent change in productivity.
   (b) The government taxes output at 5
   (c) Wasteful government spending that is financed by lump sum taxation.

3. **Consumption.**
   (a) Write down the conditions under which consumption is constant across time.
   (b) Explain: when the interest rate $r$ is higher than the subjective discount rate $\rho$ (where $\rho = \frac{1}{\beta} - 1$), agents have an increasing consumption path. What prevents agents from consuming their entire lifetime income right before their death, and consuming nothing beforehand?