Questions TA 7 session

Question 1 – Precautionary saving 1

How would rational, risk averse consumers react if they face higher uncertainty about their future income?

Select one or more:

- ☐ a. An increase in uncertainty would raise consumption growth.
- ☐ b. An increase in uncertainty would raise the coefficient of relative prudence.
- ☐ c. An increase in uncertainty would raise current savings.

Question 1 – Precautionary saving 2

How would rational, risk averse consumers react if they face higher uncertainty about their future income?

Select one or more:

- ☐ a. An increase in uncertainty would raise the coefficient of relative prudence.
- ☐ b. An increase in uncertainty would raise current savings.
- ☐ c. An increase in uncertainty would raise current consumption.

Question 1 – Precautionary saving 3

How would rational, risk averse consumers react if they face higher uncertainty about their future income?

Select one or more:

- ☐ a. An increase in uncertainty would raise the coefficient of relative prudence.
- ☐ b. An increase in uncertainty would raise consumption growth.
- ☐ c. An increase in uncertainty would reduce current savings.

Question 2 – PIH 1

Suppose one regresses consumption changes in period t on lagged income as $\Delta C_t = \alpha + \beta Y_{t-1} + \varepsilon_t$. Which of the following is true if the model of the rational expectations permanent income hypothesis like Hall (1978) fits data well.

Select one:

- a. $\beta > 0$
- b. $\beta = 0$
- c. $\beta < 0$

Question 2 – PIH 2

Suppose one regresses consumption changes in period t on lagged consumption as $\Delta C_t = \alpha + \beta C_{t-1} + \varepsilon_t$. Which of the following is true if the model of the rational expectations permanent income hypothesis like Hall (1978) fits data well.

Select one:

- a. $\beta > 0$
- b. $\beta = 0$
- c. $\beta < 0$

Question 2 – PIH 3

Suppose one regresses consumption changes in period t on lagged cash holdings as $\Delta C_t = \alpha + \beta Cash_{t-1} + \varepsilon_t$. Which of the following is true if the model of the rational expectations permanent income hypothesis like Hall (1978) fits data well.

Select one:

- a. $\beta = 0$
- b. $\beta > 0$
- c. $\beta < 0$

Question 3 - Fisher eq. 1

According to the Fisher effect, nominal interest rates and inflation are positively correlated in the long run.

Select one:

- ○ True
- ○ False