

Economics 314
Daily Question #21

Spring 2013
April 10

1. Explain the intuition of the ratio $\frac{V_r}{V_r + V_p}$ in the Lucas supply curve of equation (6.83).
2. Given this intuition, why is it between zero and one?
3. Use this ratio to explain why the empirical result of equation (6.99) is consistent with the Lucas model.