Economics 314 Spring 2014
Daily Question #18 March 24

1. Romer's utility function (6.2) on page 239 is additive in the terms involving, respectively, consumption, real money balances, and labor. This means that the marginal utility of money balances, for example, is independent of the levels of consumption and labor effort. Why does this simplify equations (6.3) and (6.4)? Does this independence of marginal utilities seem plausible or can you think of reasons why the marginal utility of money balances might, for example, depend on the level of consumption?

2. Near the top of page 240, Romer states that his model has two assets, money and bonds. Yet the budget constraint (6.5) does not have a variable for the household's quantity of bonds. Explain this.