Economics 314 Spring 2019

Daily Problem #15 February 27

In a two-period framework with no initial or terminal assets, an individual's budget constraint can be written

$$(1+r)c_1 + c_2 = (1+r)w_1 l_1 + w_2 l_2 ,$$

with c being consumption by the person in terms of goods, l being labor hours worked, w being the real wage (goods per hour worked), and r being the real interest rate. We assume that the person takes wage rates and interest rates as exogenous.

1. For given amounts of labor in the two periods, what are the slope and vertical intercept of the budget constraint in terms of c_1 and c_2, with c_2 on the vertical axis?

2. For given amounts of consumption and labor in period two, what are the slope and vertical intercept of the budget constraint in terms of l_1 and c_1, with c_1 on the vertical axis?

3. For given amounts of consumption in the two periods, what are the slope and vertical intercept of the budget constraint in terms of l_1 and l_2, with l_2 on the vertical axis?