Chapter 16 Review

Readings: Mankiw: Chapter 16 all but section 16.2

Outline
I. What is at issue?
   A. What determines consumption?
   B. Why do we care?
II. The Very Long-Run
III. The Keynesian Consumption Function
IV. Franco Modigliani and the Life-Cycle Hypothesis
V. Friedman’s Permanent Income Hypothesis
V. Other Possible Determinants

Problems to Study (not graded)

3. p 461: Questions For Review # 3. I really like this question? It essentially is asking; “How do the life-cycle and permanent income hypotheses explain that; 1) rising income tends to result in a falling APC over the business cycle, but 2) rising income does not result in a falling APC over the long-run.”
5. p 462: Problems and Applications # 7.