

1. One view of the consumption function, sometimes advocated by Marxist economists, is that workers have high propensities to consume and capitalists have low propensities to consume. To explore the implications of this view, suppose an economy consumes all wage income and saves all capital income. Show that if the factors of production earn their marginal product, this economy reaches the Golden Rule level of capital accumulation.
2. "The return to the individual investors understates the true social return from installing new capital" (Samuel Brittan, *Financial Times*, 4 March, 1993). Explain the meaning of this new claim and discuss its implications for the rate of growth of output.
3. Suppose the productivity of labour depends on the level of education and training of the workforce. This implies that the production function is given by

$$Y = K^\alpha (T \cdot L)^{1-\alpha}$$

where  $Y$  is the output,  $K$  is the capital and  $T$  the required level of training to be able to deal with the capital. Training is costly and the labour trains more when the capital intensity in the economy increases. Derive a growth rate for this economy and discuss its dependence on:

- (a) "Productivity-effect" of training of labour
- (b) saving rate
- (c) depreciation rate
- (d) population growth