**EC201 Macroeconomics 2, Term 1 2025**
**University of Warwick**
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**Support and Feedback Class 5 (week 7)**
**Uncertainty**


# Pre-Class Review Questions


**A. Pre-class Review Questions** These review questions are designed to help you reflect on the lecture material and check your understanding. You must complete them before the support and feedback class. At the start of the class, you will need to show your answers to your tutor, who will record both your attendance and preparation. If you have any doubts about the questions, you can ask your tutor at the beginning of the session. Please note that review questions will not be discussed in detail during the class; however, brief answers will be posted on Moodle before the test and exam.

1. **Risk Neutrality** Redo the analysis from Section 6.4. in the book (the example we covered during lecture), assuming that households are risk neutral. Specifically, assume that their preferences are logarithmic in period 1 but linear in period 2 consumption, $\ln C_1 + EC_2$. Assume that Q=1.

    (a) Assume that $\sigma = 0$. Find the equilibrium values of $C_1$ and $B_1$.

    (b) Now assume that $\sigma > 0$. Find the equilibrium value of $B_1$. What is the predicted effect of the Great Moderation on the current account? Explain.


**B. In-class Questions to be distributed in class by tutors.**


**C. Self-study Questions to be distributed in class by tutors.**