

## Problem Set # 8 (Prescott)

Joydeep Bhattacharya/ M. Wang  
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### **[Remember to type your solutions in Scientific Workplace]**

The *Wall Street Journal* summarizes the differences between Americans and Europeans as follows: “The average American works 25 hours a week; the average Frenchman 18; the average Italian a bit more than 16 and a half. Even the hardest-working Europeans – the British, who put in an average of 21 and half hours – are far more laid-back than their American cousins. Compared with Europeans, Americans are more likely to be employed and more likely to work longer hours – employed Americans put in about three hours more per week than employed Frenchmen. Most important, Americans take fewer (and shorter) vacations. The average American takes off less than six weeks a year; the average Frenchman almost 12. The world champion vacationers are the Swedes, at 16 and a half weeks per year.”

Take a look at the article:

[http://www.minneapolisfed.org/publications\\_papers/pub\\_display.cfm?id=3346](http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3346)

Write a general-equilibrium OG or two-period model designed to study Prescott’s main argument on this topic. Be clear in your description of the model. You have complete freedom in how you set the model up; except, if you add in unnecessary features, the model will get too complicated and you won’t be able to say anything. For example, allowing for production is OK but may come at the cost of complications. Feel free to make simplifying assumptions about functional forms or on values of parameters. Explain the notation carefully. Does your model a) agree with Prescott? b) generate a Laffer curve?