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**Economics 732: Monetary Economics II**

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**Problem Set # 5**

**Sunspots and Money Taxes**

$$\begin{aligned} l &= 1, & n &= 3 \\ \omega &= (\omega_1, \omega_2, \omega_3) & &= (3, 2, 1) \\ \tau &= (\tau_1, \tau_2, \tau_3) & &= (4, -4, 0) \end{aligned}$$

1. Draw the tax-adjusted Edgeworth box that relates extrinsic uncertainty to intrinsic uncertainty.
2. Consider 3 cases:
  - (i) perfect securities markets
  - (ii) no securities markets
  - (iii) restricted participation on securities markets
    - (a) How do these compare in volatility of prices?
    - (b) How do these compare in volatility of quantities?
    - (c) What do you conclude?