



## ANSWER KEY

### Pandemic Spending During Covid

**Table 1. Commodity budget shares in household spending with different Frisch parameters**

---- BUDGET SHARES in TOTAL SPENDING ----			
	Base	Frisch = -1	Frisch = -4
Commodity	(Budshr_B)	(Budshr_L)	Burdshr_L)
<b>AGR</b>	.01	.01	.01
<b>MFG</b>	.20	.38	.25
<b>SER</b>	.79	.61	.75

**Table 2. Percent changes in quantities with different Frisch parameters**

	----- Frisch = -1 -----				----- Frisch = -4 -----			
	Household demand (QHTOT)	Production (QX)	Imports (QM)	Exports (QE)	Household demand (QHTOT)	Production (QX)	Imports (QM)	Exports (QE)
<b>AGR</b>	26.9	38.3	23.7	64.2	7.3	9.8	6.3	15.7
<b>MFG</b>	83.4	38.7	24.3	44.4	22.2	10.1	6.6	11.3
<b>SER</b>	-25.4	-8.6	-19.6	27.3	-6.6	-2.2	-5.7	7.7

3. As Frisch parameter gets larger in absolute terms, a smaller share of household consumption is affected by the preference change.
5. With a fixed and fully employed supply of land, labor and capital, factors leaving a shrinking sector must be reemployed in other sectors. Reduced output in a large sector means other sectors must expand a lot to absorb its released factors.
7. A homothetic utility function has income elasticities of one. View the LESELAS in the data file. Neither experiment has a homothetic function.