



# B.E. International Program

Faculty of Economics, Thammasat University



**Semester: 2/2011**

**EE 312 Macroeconomics Theory**

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**Homework # 4**

- 1) What are the differences between the Classical and Keynesian labor markets? What are their reasons for the flexibility or the rigidity in price and money wage?
- 2) Explain the role of interest rate in the Classical model when there is a decline in autonomous investment. How has the total amount of aggregate demand been changed? Do you agree that demand management policy has no role in determining output in the Classical model? Explain the reasons with your answer.
- 3) Compare the effects of an expansionary fiscal policy action, an increase in government spending financed by government bond sales to the public, in the Classical and Keynesian models. Include in your answer the effects of this policy on the level of real income ( $Y$ ), employment ( $N$ ), the price level ( $P$ ), and the rate of interest ( $r$ ).
- 4) Analyze the impact of the following events on output, price, and employment in the Classical and Keynesian models.
  - a) Increase in oil price
  - b) Investors have lost confidence in government stability
- 5) a. What is the “Phillips curve”? Explain the relationship on the Phillips curve by using the Keynesian aggregate demand and aggregate supply.  
b. “Stagflation, i.e., an increase in unemployment and inflation, is inconsistent with the short-run Phillips Curve and the AD-AS model. Do you agree? Explain.
- 6) Given Thailand’s data on inflation rate and unemployment rate in the table below, plot them with the horizontal axis being the unemployment rate and the vertical axis being the inflation rate. Offer your observation on the relationship between these two variables.

Table: Thailand's Inflation and Unemployment Rates 1983-2010

Year	Inflation rate	Unemployment rate
1983	3.71	2.41
1984	0.99	2.34
1985	2.36	3.69
1986	1.73	3.48
1987	2.46	5.78
1988	3.97	3.04
1989	5.51	1.39
1990	5.72	2.21
1991	5.73	2.69
1992	4.22	1.38
1993	3.32	1.51
1994	5.03	1.29
1995	5.73	1.11
1996	5.92	1.07
1997	5.59	0.88
1998	8.11	3.41
1999	0.21	2.97
2000	1.66	2.39
2001	1.64	3.30
2002	0.6	2.40
2003	1.80	2.20
2004	2.75	2.10
2005	4.49	1.80
2006	4.67	1.50
2007	2.27	1.40
2008	5.50	1.40
2009	-0.9	1.50
2010	3.30	1.00

Source: Inflation rate is from Headline Consumer Price Index, Ministry of Commerce.  
 Unemployment rate is from the National Statistical Office.