Exercise 1
Introduction to Macroeconomics

1. What are the four macroeconomic agents? What are the three markets in which the agents interact?
2. What is sticky price? Explain why price may be sticky.
3. Explain the four main categories of unemployment.
4. Classify the following events into the categories of unemployment.
   - Some friends just graduated from college and have been looking for jobs.
   - Christine lost her job as a biologist at a biotech-company when the whole industry went into recession.
   - Gerhard, who used to be a taxi driver, stopped looking for a job three months after he lost his job.
   - Dirk used to work as a wooden-doll maker. Now all kids want plastic dolls, so he is out of work.
   - The hotel part-timers were laid off during low season.
   - Aditi, a high-tech engineer, just decided to quit her job; she is being interviewed for a better-paid job in a multinational company.
   - A man lost his job as a public reader as literacy has increased in his village.
5. Suppose there are 100 people in labor force and 60 people currently in employment. Find the unemployment rate. Can we find labor force participation rate? If not, what information do we need?
6. What is the discouraged-worker effect? How can it affect the unemployment rate?
7. On average, nations in Europe pay higher unemployment benefits for longer periods of time than the US. How would this affect the unemployment rates in these nations? Explain which type of unemployment is most directly affected.

8. What is inflation? It is often said that inflation reduces one's purchasing power, and hence inflation is bad. How can inflation reduce one's purchasing power? Is there a case where inflation may not be bad?
9. Who – lender or borrower – is better off, given unanticipated deflation? Explain with examples.
10. When inflation is anticipated, what will the central bank do with the interest rate? (Hint: Fisher Equation)
11. The CPI is 120 in year 1 and 150 in year 2. All inflation is anticipated. If the bank charges an interest rate of 30%, what is the bank's real interest rate?
12. Explain why inflation is necessary to a growing economy with reference to the money supply.
13. What are the two administrative costs of inflation? Explain.
14. Draw a diagram of business cycles and the trend line. Label the four phases of business cycles. Answer the following questions.
    - Which phase do you expect to see inflation?
    - Which phase do you expect to see high unemployment?
    - Which phase should the government use expansionary policy? Give example.
    - Which phase should the government use contractionary policy? Give example.
    - What factors determine the trend line?
15. An article states that capital stock and labor force are both increasing at an annual rate of 7%. The same article also states that real output is growing by 11%. Explain why this is possible.

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1. The four macroeconomic agents
   - households
   - firms
   - governments
   - banks

The three markets which the agents interact
   - output growth
   - unemployment
   - inflation and deflation

2. Sticky price = the price is not adjust immediately when the market price changes (because of minimum wage policy, employment contract, labor union so the price adjusts slowly to the equilibrium)

3. Frictional unemployment ÷ for people who looking / switching jobs
Structural unemployment ÷ when the structure has changed and people can't adjust their skill for the new change
Cyclical unemployment ÷ because the economy has changed the number of cyclical unemployment is increased because of the recession of economic
Seasonal unemployment ÷ unemployment because of changing seasons

4.
- Some friends just graduated from college and have been looking for jobs. frictional unemployment
- Christine lost her job as a biologist at a biotech-company when the whole industry went into recession. cyclical unemployment
- Gerhard, who used to be a taxi driver, stopped looking for a job three months after he lost his job. not in the labor force
- Dirk used to work as a wooden-doll maker. Now all kids want plastic dolls, so he is out of work. structural unemployment
- The hotel part-timers were laid off during low season. seasonal unemployment
- Aditi, a high-tech engineer, just decided to quit her job; she is being interviewed for a better-paid job in a multinational company. frictional unemployment
- A man lost his job as a public reader as literacy has increased in his village. structural unemployment

5. labor force = 100
employment = 60
unemployment : 100 - 60 = 40
unemployment rate = $\frac{40}{100}$ = 0.4 %

labor force rate : $\frac{\text{labor force}}{\text{population}} = \frac{100}{\text{population}}$

∴ in this information we need population

6. Discouraged - worker effect is the people who think no job for them and feel discourage
Discouraged - worker effect can make the unemployment rate look less than it should be.

7. In my opnion, unemployment rate in Europe may be increase because they have benefits for longer periods so they don't have to hurry to find job.
Frictional unemployment will be the most affected because they will use more time to find job that they want.

8. • Inflation is Increasing the price in a period of time
• Inflation can reduce one's purchasing power because Something you bought it last year. In this year you can't buy it for the same price because the price is increasing by inflation
• Inflation may not be bad because it make economy grow up but must be strictly controlled by the Bank of this country

9. lender will better off in deflation situation
eg. A borrowed 20 Baht from B 1 year ago (20 Baht can buy 1 coke)
A return 20 Baht to B today (20 Baht can buy 2 cokes)

10. The central bank will set higher nominal interest rate.

11. $120 \times 1.3 = 156$ (30%)

$120 \times 1.25 = 150$ (CPI)

$156 - 150 = 6$

$120 \times 1.05 = 6$ (real interest rate)

$\therefore$ bank's real interest rate is 6

I'm really don't know ka. I'm sorry T_T

12. When the economy grow, people will need more money to purchase. So This country will have more transaction of money

13. Menu cost : the cost that happens when business change their price that offer to the customers

Shoe leather cost : The bank give high interest and people want to save their money in the bank

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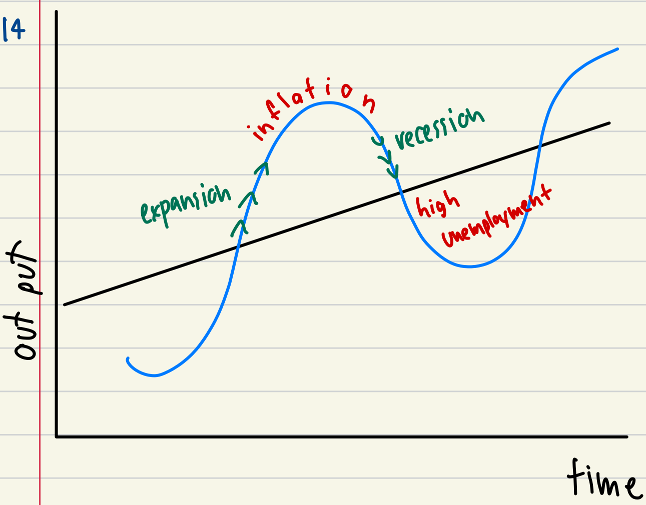

expansionary policy
use when they want to boost business & consumer spending

Contractionary policy
when they want to slowdown an economy

The trend line detemined by quantity and quanlity of FoP

15. because trendline is predicted and show that increasing of 7%.
but in real it depends on FoP and show that the
result is greater than the trend line