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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.

1. What are the four macroeconomic agents? What are the three markets in which the agents interact?

Macroeconomic agent

- House hold
- Firm
- Gov
- Rest of the world

agents interact

- goods - and - services market
- labor market
- financial market

2. What is sticky price? Explain why price may be sticky.

Sticky price : price adjusts slowly to the equilibrium so the market takes to clear.

→ Because minimum wage policy employment contract labor union

3. Explain the four main categories of unemployment.

- Frictional unemployment - หางาน / เด็กพึ่งจบ
- Structural unemployment - งานไม่มีตำแหน่ง
- Cyclical unemployment - ตามความต้องการตลาด
- Seasonal unemployment -

4. Classify the following events into the categories of unemployment.

1 Some friends just graduated from college and have been looking for jobs.

3 Christine lost her job as a biologist at a biotech-company when the whole industry went into recession. เศรษฐกิจตกต่ำ

2 Gerhard, who used to be a taxi driver, stopped looking for a job three months after he lost his job.

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4 The hotel part-timers were laid off during low season.

1 Aditi, a high-tech engineer, just decided to quit her job; she is being interviewed for a better-paid job in a multinational company.

3 A man lost his job as a public reader as literacy has increased in his village.

สมมุติ 100 60

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?

หาไม่ได้ เพราะมี population ก็เลยหาไม่ได้

unemployment rate ;

$$\frac{\text{unemployment}}{\text{labor force}} \times 100$$

$$\frac{40}{100} \times 100 = 40\% .$$

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6. What is the discouraged-worker effect? How can it affect the unemployment rate?

People who want to work but cannot find jobs become discouraged and stop looking for work.
If it affect the unemployment rate will raise.

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.

Voluntary unemployment

Unemployment rate Europe > US

Voluntary unemployment

ดังนั้น

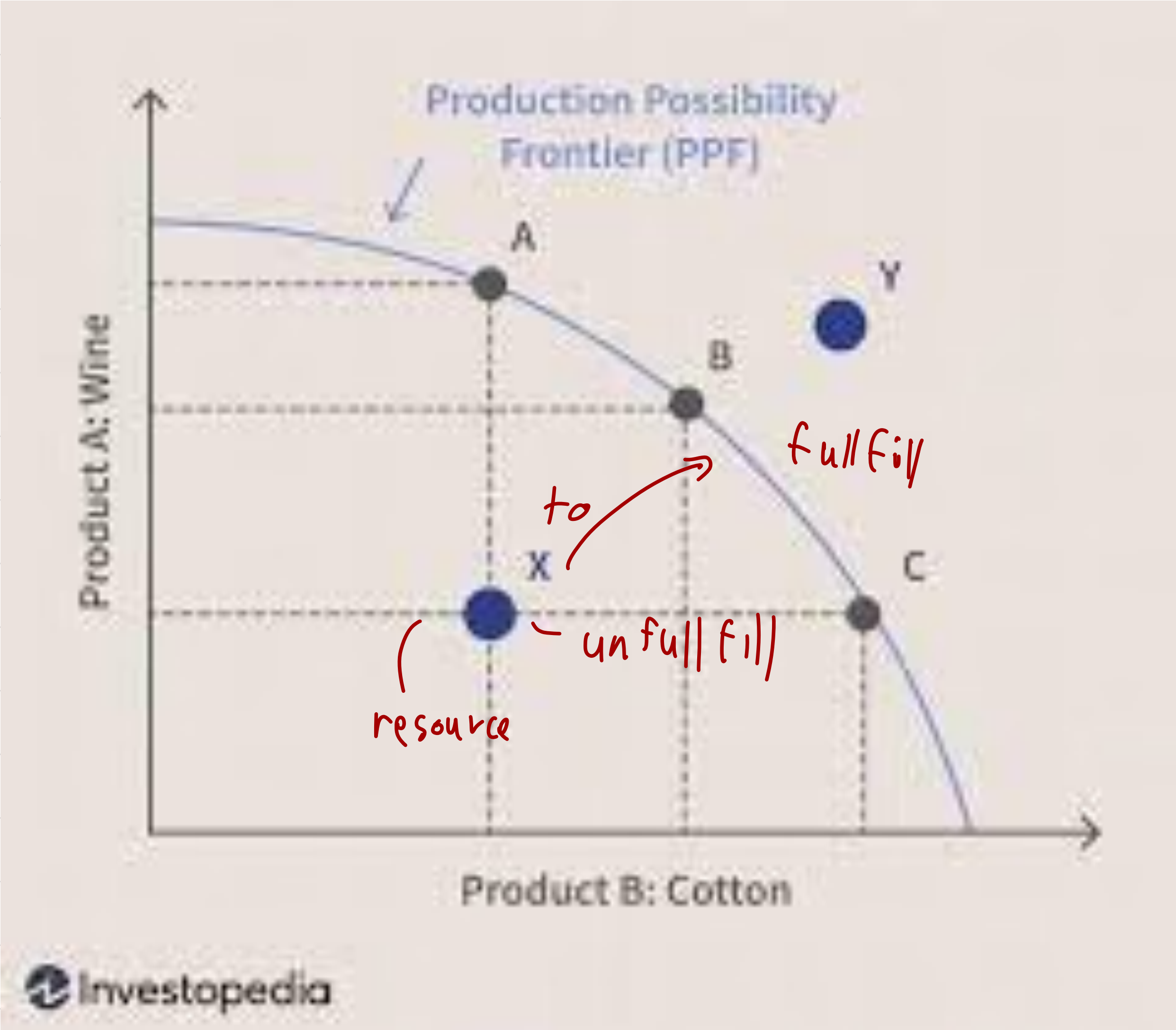
8. What is inflation? It is often said that inflation reduces one's purchasing power, and hence inflation is bad. How can inflation reduce one's purchasing power? Is there a case where inflation may not be bad?

An increase in the overall price level.

inflation ① income of people stay the same but the price level of good and service increase which make it become less affordable

② The actual value of money will be lower and everything become more expensive to buy

Change to full-filled capacity


Production Possibility
Frontier (PPF)
A
B
C
X
Y
Product A: Wine
Product B: Cotton
Investopedia
full fill
to
unfull fill
resource

9. Who – lender or borrower – is better off, given unanticipated deflation? Explain with examples.

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ผิดคาด

Borrower

Lender

is betteroff

1000 $

Today	next montt
can buy 1 car	Can buy 2 car

Lender will get better off because lender received back more and the product will decrease.

10. When inflation is anticipated, what will the central bank do with the interest rate? (Hint: Fisher Equation)

If inflation rate is high banks will set higher nominal interest rate. If not real interest rate will become negative one will deposit money in the bank.

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?

nominial interest rest

find $\pi = \frac{150 - 120}{120} = \frac{1}{4} = 25$

$30 = r + 25$

$r = 5$ #

12. Explain why inflation is necessary to a growing economy with reference to the money supply.

Growing economy $\rightarrow$ increase transaction

$\rightarrow$ Demand for currency $\uparrow$

Because economy has more money in economic market.

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13. What are the two administrative costs of inflation? Explain.

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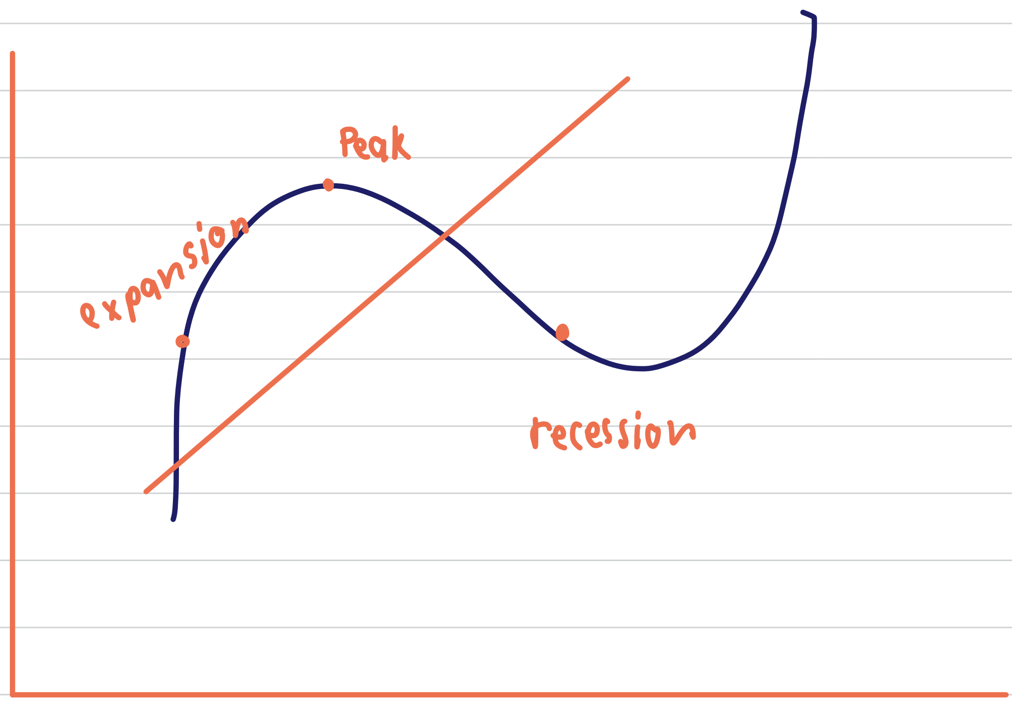
Menu cost : firms are forced to change prices more often than they would if the aggregate price level was more or less stable

Shoe - leather cost : the increase cost of transaction caused by inflation

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? Recession and Peak
- Which phase do you expect to see high unemployment? Trough & Recession
- Which phase should the government use expansionary policy? Give example. Recession & Trough
- Which phase should the government use contractionary policy? Give example. Expansion & Peak
- What factors determine the trend line? Quality + quantity of labor and capital



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.

Possible, causing the result of increased output per worker due to higher productivity.