

Solution:

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1. Four macroeconomics agent:

- + Household
- + Firm
- + Government
- + Rest of the world

- Three markets in which the agents interact:

- + Money market
- + Labor market
- + Goods & Services market.

2. Stick price is a price that is not easily change to equilibrium price.

Price may be sticky because of labor unions, minimum wage policy, or the signed contract of unemployment.

3. Four main categories of unemployment:

- + Frictional unemployment: the unemployment in a period when people looking for job or switching job.
- + Structural unemployment: the unemployment as the outcome of changes in the structure of the economy. It can be because of geographical change, technical change, demand for labor skill change, and labor market rigidities.
- + Cyclical unemployment: the unemployment that is more than frictional plus structural unemployment. For example: recession.
- + Seasonal unemployment: the unemployment that due to 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: the discouraged-worker

- 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. Unemployment rate =
$$\frac{\text{Unemployment}}{\text{Labor force}}$$
$$= \frac{40}{100} = 0.4 = 40\%$$

+ We cannot find labor force participation rate because we need population data.

6. The discouraged-worker effect is the effect of people that cannot find the job and later on they give up finding it. This effect can decrease the unemployment rate.

7. On average, nations in EU pay higher unemployment benefits for a longer periods of time than US. This will most likely that unemployment rate in EU is higher compare to US. This is because of unemployment benefit, this will reduce incentives for unemployment person to search job and end as being more unemployed. People will not looking for job and after long time, it may lead to the discouraged-worker.

8. Inflation is an increase in overall price level. Inflation reduces one's purchasing power, because when overall price increased and wage is fixed people will lose purchasing power to buy goods or service with the same amount of money like before. There is a case where inflation may not be bad at all when government print more money to keep the value of money, it will help the supply of money from government being hyperinflation.

9. lender is better off, given unanticipated deflation. This is because deflation will gains one's purchasing power. For example, money that borrow today will gain more value when returning to the lender in the future

10. When inflation is anticipated, the central bank will increase the nominal interest rate.

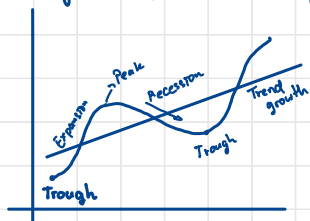
11. Fisher equation: $i = r + \pi \Rightarrow r = i - \pi$
 $= 0.3 - ((150-120)/120)$
 $= 0.05 = 5\%$

12. Inflation is necessary to growing economy with reference to the money supply as it can helps avoid hyperinflation. As inflation will allow people to use their money when overall price increase.

13. The two administrative cost of inflation:

- + Menu cost: the cost of changing menu from time to time when there is an inflation.
- + Shoe leather cost: the opportunity cost of holding cash outside the bank when there is inflation.

14. Diagram of business cycles:



- Inflation is expected to see in the expansion phase
- high unemployment is expected to see in the recession phase.
- the government should use expansionary policy during the recession phase. Example. Covid-19, most business suffer, so government can use the policy to help business.
- the government should use contractionary policy during the expansion phase

Example: When the economy is growing, most people will likely to spend their money which lead to inflation.
government should raise tax to slow down people.

- factor that determine the trend line is the factor of production (FOP).

15. When the capital stock, labor force, and real output are increasing, it means that the economic are doing well and in the expansion phase. This is possible when there is the advance of technology, the increase of population and human resources, which can make the positive change in the factor of production that can increase the output of production and gain in the capital stock
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