



B.E. International Program

Faculty of Economics, Thammasat University



Semester: 1/2012

EE 312 Macroeconomic Theory

Homework # 3 (Due Oct.24, 2012)

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. Why do monetarists believe that monetary policy can affect output and employment only in the short run, but there will be no long run effects? What is the main difference between the short run and the long-run?
4. Analyze the effectiveness of monetary expansion in increasing output or real income in the following situations
 - a) in the Classical model
 - b) in the Keynesian system
 - c) in the Monetarist view
 - d) if labor has rational expectations
5. Continuous depressions and heavy rains have caused severe floods in many parts of the country. Use the Real Business Cycle theory to explain how such an event causes fluctuations in output.
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. Does a "Phillips curve" exist for Thailand?

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 in from Headline Consumer Price Index is from Ministry of Commerce.
Unemployment rate is from the National Statistical Office.