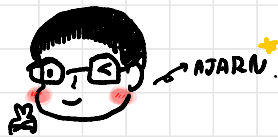


Exercise 1



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

ANS. Four macroeconomic agents :

1. Household
2. Firms
3. The government
4. The rest of the world.

Three markets :

1. The goods - and - services market
2. The labor market / factor market
3. The money (financial) market

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

ANS. Sticky price is a price that adjust slowly to the equilibrium.

Sticky price may be sticky due to many factors

such as minimum wage , labor contract , employment contract , labor union and etc .

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

ANS. 1. Frictional unemployment

→ Unemployment due to the normal turnover (When people searching for jobs or switching job) in the labor market.

2. Structural unemployment

→ Unemployment due to changes in the structure.

ex. technologies change

geographical change → job's locations.

change in demand for Labor skills

Labor market rigidities [employment contract
labor union

3. Cyclical unemployment

→ Unemployment due to fluctuation in business cycles.

4. Seasonal unemployment

→ Unemployment due to changing seasons.

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.

ANS.

1 Frictional unemployment

2 Cyclical unemployment

3 Exit the labor force. (Discourage worker)

4 Structural unemployment

giving up look
for job ≈ 4 weeks

5 Seasonal unemployment

↓
apply in discouraged
worker.

6 Frictional unemployment

7 Structural unemployment

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?

ANS. $100 - 60 = 40$ people unemployed

from Labor force →
people in employment →

$$\text{unemployment rate} = \frac{U}{LF} = \frac{40}{100} = 0.4$$

\therefore unemployment rate = 0.4

\therefore We can not yet find the labor force participation rate because we do not yet know the number of the population.

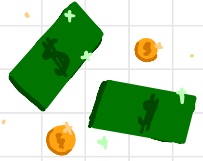
6. What is the discouraged-worker effect? How can it affect the unemployment rate?

ANS. Discouraged-worker effect is when people who want to work but can't find work then become discouraged and stop looking for work.

These people are not classified as unemployed and are not include in the calculation of unemployment rate.

Discouraged-worker effect can give the impression that more people have found work, even though they are still unemployed.

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.



ANS. Since there is more compensation for the long-term unemployed in Europe than in the United States, unemployment rates in Europe will rise. This is because people in Europe will have no intention of getting serious about finding a job because they will be paid even if they do not have a job.

In my opinion, this might affect frictional unemployment the most, since frictional unemployment is due to normal turnover, such as when people are looking for a job. People who are not in the labor force start to join the labor force and people who is looking for job have no intention to find job seriously, so the number of frictional unemployment will increase.

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?

ANS. Inflation is an increase in overall price level.

If our wages are fixed due to employment contracts, then the inflation will reduce our Purchasing Power.

Because if the amount of income is fixed, we can buy less goods due to the higher prices of goods and services,

- This is greatly affect manual workers who receive minimum wage. •

If our wages are not fixed, the inflation may not be bad.

