



B.E. International Program

Faculty of Economics, Thammasat University



Semester: 1/2011

EE 312 Macroeconomics Theory

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Homework # 3

1. Why is interest rate regarded as the stabilizing factor in the Classical model? Explain the role of interest rate when there are positive and negative shocks to the economy.
2. Compare the main features of the Classical and Keynesian labor markets. Explain how the different features lead to their different aggregate supply curves.
3. Explain what is meant by an aggregate demand curve. Explain how you derive the aggregate demand curve under
 - a) The Classical model
 - b) The Keynesian model
4. What is the “Phillips curve”? Explain the relationship on the Phillips curve by using the Keynesian aggregate demand and aggregate supply.
5. Given Thailand’s data on the inflation rate and the unemployment rate in the table below, plot them where the horizontal axis is the unemployment rate and the vertical axis is the inflation rate. Offer your observation on their relationship. Does the relationship you observe resembles the “Phillips curve”?

Table: Thailand's Inflation and Unemployment Rates 1983-2007

Year	Headline CPI	Inflation rate	Unemployment rate
1983	50.3	3.71	2.41
1984	50.8	0.99	2.34
1985	52.0	2.36	3.69
1986	52.9	1.73	3.48
1987	54.2	2.46	5.78
1988	56.3	3.97	3.04
1989	59.4	5.51	1.39
1990	62.8	5.72	2.21
1991	66.4	5.73	2.69
1992	69.2	4.22	1.38
1993	71.5	3.32	1.51
1994	75.1	5.03	1.29
1995	79.4	5.73	1.11
1996	84.1	5.92	1.07
1997	88.8	5.59	0.88
1998	96.0	8.11	3.41
1999	96.2	0.21	2.97
2000	97.8	1.66	2.39
2001	99.4	1.64	2.60
2002	100.0	0.6	1.76
2003	101.8	1.80	1.54
2004	104.6	2.75	1.52
2005	109.3	4.49	1.35
2006	114.4	4.67	1.22
2007	117.0	2.27	1.61

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