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PROBLEM SET I

EE212 — Principles of Macroeconomics
Semester 2/2018
Total mark: 20 points

Due date: Friday 7 February 2020 **before midnight** to jenmana@econ.tu.ac.th.

For any late submission, one point will be deducted per half an hour.

Please submit in pdf form, and not word document.

Dear students,

Two weeks are given to complete this assignment. As mentioned, we will have four problem sets, each making up 5% of your total grade (20% in total). These will be challenging, and will demand you to revisit the topics that have been mentioned so far in class, as well as to read the mandatory readings.

Reminder on academic policy: I encourage you all to work together and exchange ideas out of class. However, I also encourage you all as university scholars to start independently critically approach a topic, a question, or a challenge that will be posed in this class, as well as the future ones.

I expect your independent completion of the short essays, as it would be obvious if they are not your own ideas. Plagiarism and cheating will be treated with disciplinary actions. Thammasat University, our faculty, and I take academic integrity extremely seriously.

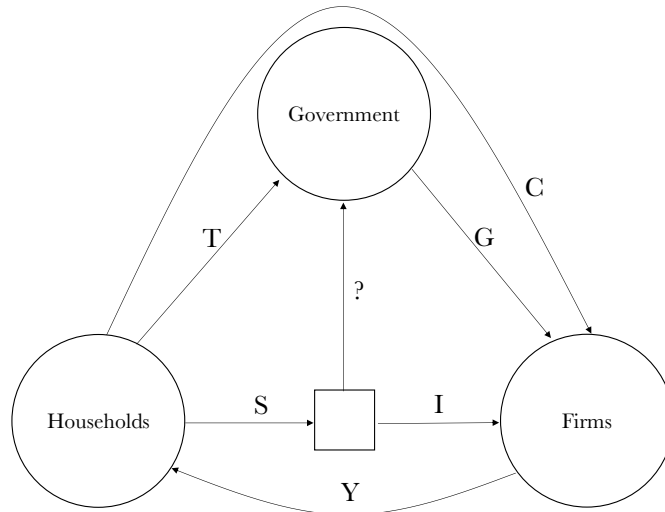
Problem I: Macroeconomic concepts (2 points)

Answer to these questions in **a few sentences**.

1. What does GDP per capita measure?
2. Why are we interested in real GDP?
3. What is the discouraged-worker effect? How does it affect the unemployment rate?
4. What is transfer payment? and why is it not included in the GDP?
5. Using market exchange rates, per capita income in Switzerland exceeds that in Canada, but when PPP rates are used the situation is reversed. Why?

Problem II: flows in a closed economy (5 points)

Assume that the circular flow of a closed economy is described by the figure below.



Suppose that in period, household consumption (C) is 4,000, and they save (S) 2,500. The firms invest (I) 2,000, and government spends (G) 1,500.

A) Find the values for the rest (T and Y), include the question mark. What market is the box, and how can we interpret the question mark. Then write out the identity function of the GDP by using the consumption and income approach. (1 point)

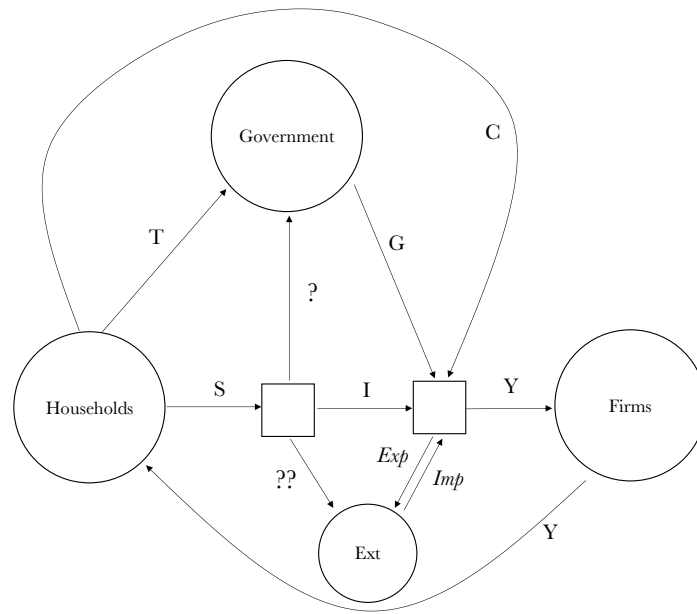
B) We still consider the same close economy, but now we introduce firms' ability to **immediately** self-finance, designated by P . We also introduce compensation of employees, W , and paid dividends D . Reconfigure the circular flow above (scan them for submission).

We now assume that $C = 4000$, $I = 2000$, $G = 1500$, $W = 4800$, $D = 1800$, $T = 1000$. Estimate the missing elements of the circular flow. What is the GDP?

Write out the same two identity functions for the GDP as before, but using the new variables. What is the aggregate profit in the economy. (2 points)

Tip: Y , household income, is replaced.

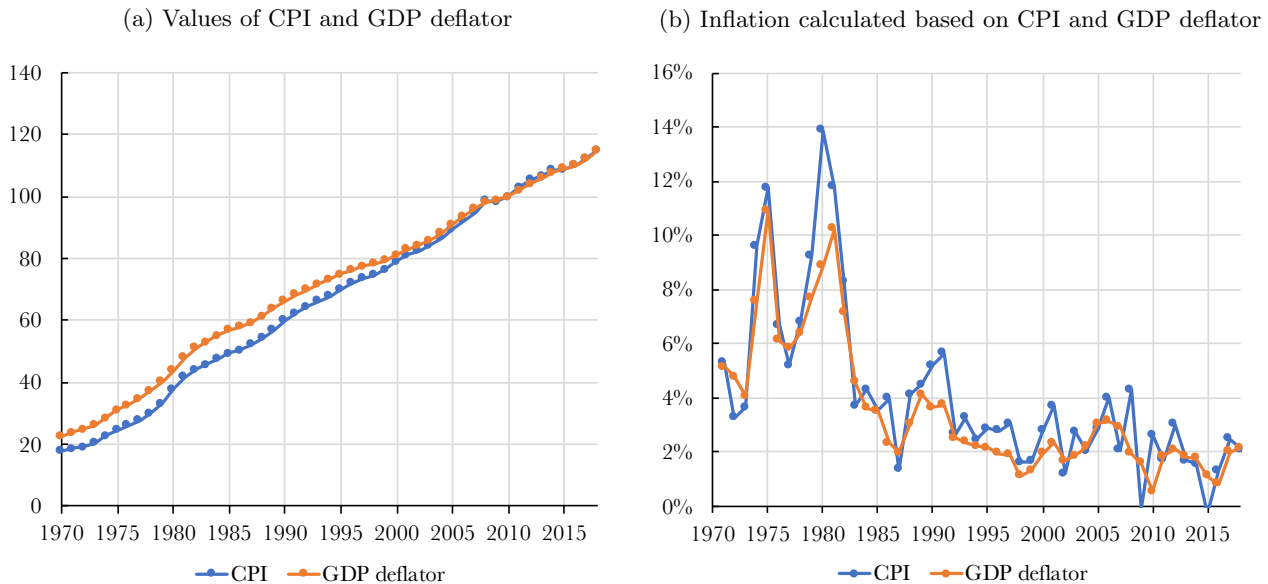
C) Now, we consider an open economy characterised by the circular flow below.



We know that $Y = 8100$, $C = 4000$, $I = 2000$, $G = 1500$, $T = 1000$, $Exp = 1500$. Determine the values of the other aggregates. What are the budget balance, the trade balance, aggregate savings? Interpret these results. Is such a situation sustainable? Is it condemnable? (2 points)

Problem III: The CPI and The GDP Deflator (6 points)

1. The nominal GDP per capita of Thailand in 2000 and 2018 are 80,534 baht and 235,010 baht respectively. Given that the GDP deflator = 100 only in 2010, and equals to 73.49 and 116.59 in 2000 and 2018 respectively, calculate the real GDP per capita of Thailand in the year 2000 and 2018. What is the base year? What is the cumulative price increase between 2000 and 2018? between 2010 and 2018? (2 points)
2. Based on the figure below for the US, the main difference in the evolution of the series for the CPI and the GDP deflator takes place in 1974-75 and 1979-1982.



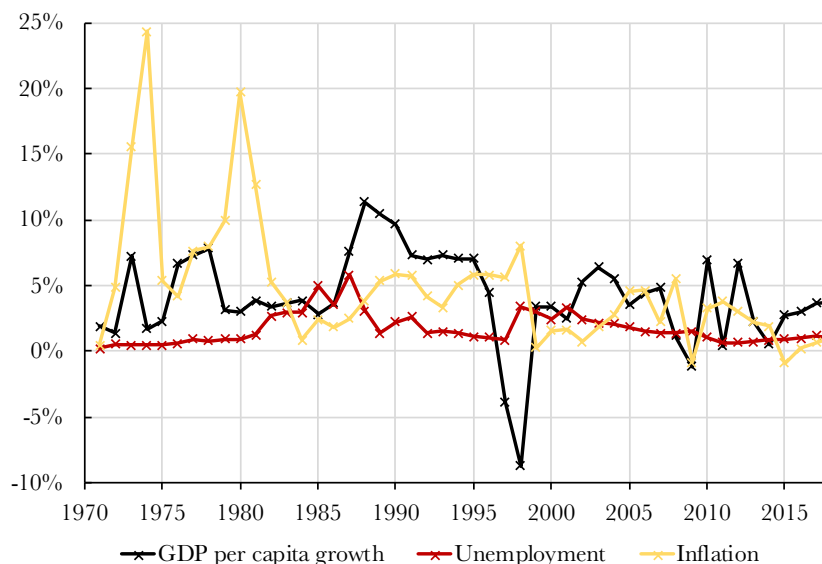
Source: Lecturer's calculation based on world bank data.

What could explain this pattern? (2 point)

Hint: think about the likely impact of an oil crisis on the price of imported goods and, in particular, on your own transport and fuel bills.

3. Write a short summary on the evolution of inflation, unemployment, and the real GDP per capita growth rate over the same period based on the figure below. (2 points)

Figure 2: Real GDP per capita growth rate, unemployment, and inflation in Thailand, 1970-2018



Problem IV: Short essays of 500 words each (7 points).

Must: cite your sources.

1. What is Thailand's definition of unemployment rate? How has Thai unemployment evolved since 2001? Based on your interpretation of the article, what is the biggest problem in the Thai labour market, and how should we try to fix it? Any reference to the other mandatory reading written by Bruno Jetin in 2012, "*Distribution of income, labour productivity, and competitiveness: is the Thai labour regime sustainable?*", is welcomed and will be awarded.
2. Based on the "*Against Economics*" article, the author – David Graeber, an American anthropologist at the London School of Economics – said:

"Economic theory as it exists increasingly resembles a shed full of broken tools."

What does he mean by this? Give one example amongst many that the author used to support his argument. Do you agree with the article and why?

Note: I will allow ± 20 words for each of the essays.