Exercise 1

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1) The four macro economic agents
   1) Firm
   2) Government
   3) Household
   4) The rest of the world

   Three markets in which the agents interact
   1) Labor market
   2) Money market
   3) Good and service market

2) sticky price why sticky?

ANS price adjust slowly to the equilibrium.

3) Four main categories of unemployment with examples

ANS 1) Fictional unemployment
- It is a normal turn over in the labor market and is used to donate short-run matching problems.

Example : Finding new job with higher wage.

2) Structural unemployment
- It is a loss of job due changes in to the structure of economy and thus is a long-run problem.

Example : Robots have been replacing unskilled workers.

3) Cyclical Unemployment
- It is a loss of job due to business cycles.

Example : In good time, demand for labor increases.

4) Seasonal Unemployment
- It is a loss of job due to ohanging season.

Example : Rice farmers are laid off during summer

4) Classify the following events into the categories of unemployment.

- Some friends just graduated from college and have been looking for jobs. Frictional
- Christine lost her job as a biologist at a biotech-company when the whole industry went into recession. Cyclical
- Gerhard, who used to be a taxi driver, stopped looking for a job three months after he lost his job. Not in labour
- Dirk used to work as a wooden-doll maker. Now all kids want plastic dolls, so he is out of work. Cyclical
- The hotel part-timers were laid off during low season. Seasonal
- 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
- A man lost his job as a public reader as literacy has increased in his village. Structural

5) Unemployment rate $= \frac{\text{unemployed}}{\text{labor force}} = \frac{40}{100} = 0.4$ or 40%.

No we cannot, we need to find the poppulation which are labor force plus not in labor force but we don't have the information about people who are not in labor force.

6) Discourage-worker effect is the action of people who give up finding jobs, so this people are not regard as unemployed.

7) It make unemployment rate of Europe fall because people would get lazy to find a job, so it not count in the labour force.

8) Inflation is an increase in overall price level. Inflation increase wage and prices of goods, so it is not necessarily reduce purchasing power. However, it has negative effective to people who have fixed income. It will reduce his/her purchasing power. Inflation is not bad for people who don't have fixed wage. His wage will increase as well as the price increases.

9) Lender is better off because the amount of debt is not increased from deflation. For example, I borrow money from my friend 100 baht. when the inflation happened, I will get lower income and take long time to pay my debt. My friend will get more interest rate than he should get.
(Deflation reduces my income)

10) The central bank will Charge high interest rate to handle with inflation.

Fisher equation : Nominal interest rate (i) = inflation (π) + real interest rate ($\bar{r}$)

11) CPI : $\frac{150-120}{120} \times 100 = 25\%$. $30 = r + 25$ → $r = 5$

12) Bank produces more money because of higher of demand of currency, so inflation happens.

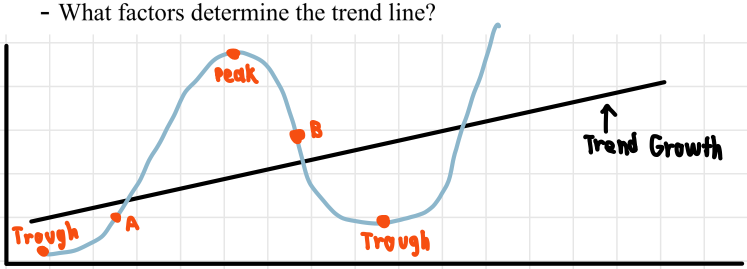
13) What are the two administrative costs of inflation? Explain.

1) Menu cost : It is costs from changing menus/price lists frequency

2) Shoe leather cost : It is cost when the opportunity costs of holding cash outside banks is high, so you may pay money to find new leather shoe because you always go to the bank.

14) 14. Draw a diagram of business cycles and the trend line. Label the four phases of business cycles. Answer the following questions.

- Which phase do you expect to see inflation?
- Which phase do you expect to see high unemployment?
- Which phase should the government use expansionary policy? Give example.
- Which phase should the government use contractionary policy? Give example.
- What factors determine the trend line?



- Expansion + Peak
- Recession + thought
- Recession + thought : Economic is slow down, so government need to make economic better by increase government spending and reduce tax.
- Expansion + Peak : Government should increase tax and reduce government spending to slow down economic
- Quanlity and quality of capital and labour

15] 15. An article states that capital stock and labor force are both increasing at an annual rate of 7%. The same article also states that real output is growing by 11%. Explain why this is possible.

because one person can produce more than one output, can be active by increasing production. E.g. New technology, New method