

Student: _____

Date: _____

Time: _____

Instructor: Muhammad Rahman
Course: 20101_Econ202_Principles of
Macroeconomics
Book: Case/Fair: Principles of
Macroeconomics 9e

Assignment: Homework_02

1. In the economy of Cycladia, the total unemployment rate is equal to 9.0 percent, the structural unemployment rate is 1.6 percent, and the frictional unemployment rate is 3.6 percent.

Calculate the cyclical unemployment rate. percent (*enter your answer to one decimal place*).

Answer: 3.8

2. During a recession, the duration of unemployment

Answer: **increases**

3. Who among the following will not be included as part of the labor force?

- A. Linda, who only works two hours a week.
- B. Ron, who retired but still works part-time.
- C. John, who is self-employed.
- D. Sally, who has given up looking for a job because she could not find one.

Answer: D

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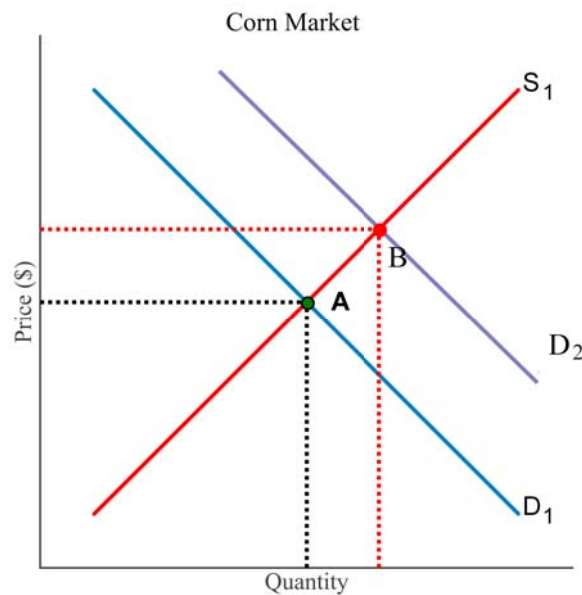
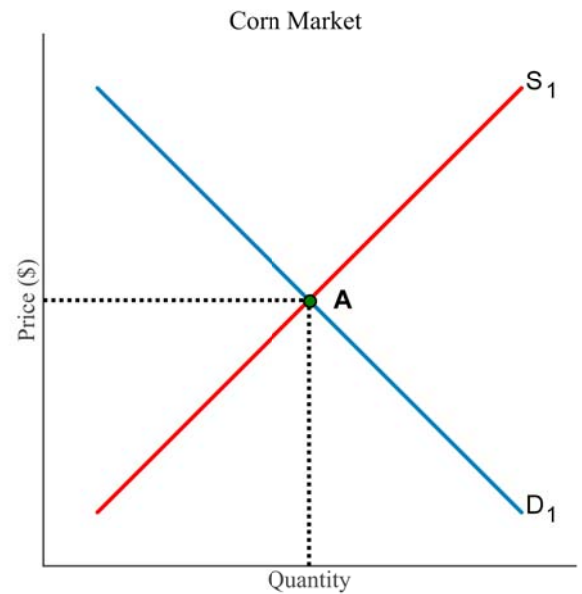
4. **Watch the video called "The Ripple Effects of Oil Prices" from ABC News.**

One of the economists in the video stated that the price of corn has risen because of the demand for ethanol which can be made from corn. How does this work in a supply and demand framework?

1.) Using the line drawing tool, show this change in the corn market. Properly label this line.

2.) Using the point drawing tool, locate the new equilibrium. Label this point 'B'.

Note: if you are not prompted for labels, you have used the wrong drawing tool.



Answer:

5. Recession is a period during which

- A. unemployment rate falls.
- B. real GDP grows at a rate less than five percent.
- C. real GDP fluctuates.
- D. real GDP declines for at least two consecutive quarters.

Answer: D

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6. John's grandfather was a coal miner in Pennsylvania. After the mines shut down in the 1940's he could not find a job. He was:

- A. cyclically unemployed.
- B. seasonally unemployed.
- C. structurally unemployed.
- D. frictionally unemployed.

Answer: C

7. Lex graduated from college two months back with an undergraduate degree in Finance. He is now looking for a job in the financial sector. He is currently classified as:

- A. seasonally unemployed.
- B. cyclically unemployed.
- C. structurally unemployed.
- D. frictionally unemployed.

Answer: D

8. Tamara lost her job as a cashier in the retail store when the store went out of business due to a downturn in general business conditions. Tamara was:

- A. seasonally unemployed.
- B. structurally unemployed.
- C. frictionally unemployed.
- D. cyclically unemployed.

Answer: D

9. Ron works in a driveway paving company in Buffalo, New York. Since paving cannot be done in cold weather, he is laid off from his paving job between November and April. During these winter months Ron is:

- A. seasonally unemployed.
- B. cyclically unemployed.
- C. frictionally unemployed.
- D. structurally unemployed.

Answer: A

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10. **Textbook Problem #7** The consumer price index (CPI) is a fixed-weight index. It compares the price of a fixed bundle of goods in one year with the price of the same bundle of goods in some base year. Suppose the market basket to compute the consumer price index consists of 200 units of good **x**, 175 units of good **y** and 60 units of good **z**. Year 2006 is used as the base year. Prices of these goods for the years 2006, 2007 and 2008 are given below.

Good	Amounts in			
	Market Basket	Prices in 2006	Prices in 2007	Prices in 2008
x	200	\$2.00	\$3.00	\$3.60
y	175	3.00	4.50	4.50
z	60	5.00	6.25	5.25

Using the above information calculate the following (*round all answers to two decimal places*):

Cost of Market Basket in 2006	\$ <input type="text"/>	CPI in 2006	<input type="text"/>
Cost of Market Basket in 2007	\$ <input type="text"/>	CPI in 2007	<input type="text"/>
Cost of Market Basket in 2008	\$ <input type="text"/>	CPI in 2008	<input type="text"/>
Rate of Inflation between 2006 and 2007	<input type="text"/> %		
Rate of Inflation between 2007 and 2008	<input type="text"/> %		

Answers 1,225.00
 100.00
 1,762.50
 143.88
 1,822.50
 148.78
 43.88
 3.41

11. In the Republic of Priceland, in 2005 the consumer price index was 221.00. In 2006 the index increased to 230.95. Calculate the rate of inflation in Priceland between 2005 and 2006.

Rate of inflation = percent (*enter your answer as a percentage rounded to two decimal places*).

Answer: 4.50

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12. Suppose, you are lending money to your friend Julia and you want a real rate of return of 7.00%, and you expect the inflation rate to be 4.00%. Which of the following interest should you charge?

- A. 5.50%.
- B. 7.00%
- C. 11.00%
- D. 3.00%

Answer: C

13. A labor union wants the union members' real wages to go up by 4.5% for the coming year. How much of an increase in wages should the union ask for, given that the inflation rate is expected to be 2.4% for the coming year?

- A. 15.0 %
- B. -2.1 %
- C. 6.9 %
- D. 4.5 %

Answer: C

14. Per capita output is output per worker or productivity.

Answer: **smaller than**

15. In the country of Wholand the stock of capital and labor force are both increasing at the annual rate of 3%. In Wholand, output is growing at the annual rate of 6%.

This is possible in the short run if

, and in the long run if .

Answers **unemployment falls and or the rate of capacity utilization increases**
there is a technological improvement leading to higher labor and or capital productivity

16. The unemployment rate that is consistent with "full employment" is

- A. cyclical unemployment.
- B. 4 percent.
- C. zero.
- D. the sum total of frictional and structural unemployment rate.

Answer: D

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17. The capacity for long-run economic growth for an economy is determined
- A. only by technology.
 - B. only by labor and capital productivity.
 - C. only by its infrastructure.
 - D. by the size of its labor force, its capital stock, and productivity of labor and capital.

Answer: D
