1. Between May and June of 1994, total employment in the U.S. economy fell from 122,872,000 to 122,430,000— a decline of 442,000. At the same time the number of unemployed dropped by 85,000 from 7,902,000 to 7,817,000 and the unemployment rate fell a bit from 6.042% to 6.001%.

A. Explain how can unemployment fall when the number employed is also falling?

B. From these numbers, calculate how large the labor force was in May and June of

1995.

2. Julia’s publisher sends her a $10,000 check every year that her book is in print. Suppose Julia’s book is in print for five years and the inflation rate during that period is (-1) percent.

(A) What has happened to Julia’s real income? What has happened to her nominal income? Note: there’s not enough information to calculate precise changes; just discuss in terms of directions.

(B) What is deflation? Why is it considered to be problematic?

3. Suppose, during the last year, in a closed economy (net exports=0), consumption expenditures were $20 billion, investment was $12 billion, government purchases were $20 billion, and the underground economy produced $10 billion worth of goods and services?

What is GDP in this country? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

4. Calculate price index numbers for the following table, assuming year 3 is the base year, and put your results in the last column.

(B) What does the price index tell us?

|  |  |  |
| --- | --- | --- |
| Year | Market Basket Outlay | Price Index |
| 1 | $170 |  |
| 2 | 180 |  |
| 3 | 200 |  |
| 4 | 200 |  |
| 5 | 224 |  |
| 6 | 250 |  |
| 7 | 280 |  |