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Macroeconomics

Study Questions: Unemployment, Inflation, Real and Nominal Variables

1. Indicate whether each of the following people is cyclically unemployed or structurally unemployed or frictionally unemployed or not officially unemployed:

- a) A 15 year old, fired from McDonald's, looking for work.
- b) A recent college graduate looking for work.
- c) A teller replaced by an ATM, looking for work.
- d) An 18 year old, fired from McDonald's because he couldn't read or write, looking for work.
- e) A clown laid off due to a recession.
- f) A recently laid off engineer working part time at Luby's.

2. In a fake economy only two final goods are produced, bread and butter. Complete the following table.

Year	Bread		Butter		Real GDP	Nominal GDP	GDP Deflator
	Price	Quantity	Price	Quantity			
1995	\$1	10	\$2	20	_____	_____	100
1996	\$2	15	_____	18	_____	84	_____

Now calculate the 1995-1996 inflation rate.

3. In 1986, a gallon of gas cost \$1 and the consumer price index was 110. In 1998, a gallon of gas is \$1.05 and the CPI is 161. Calculate which had risen faster over the period 1986-1998--the average price level or the price of a gallon of gas. Show your calculations.

1. Indicate whether each of the following people is cyclically unemployed or structurally unemployed or frictionally unemployed or not officially unemployed:

- a) A 15 year old, fired from McDonald's, looking for work. *Too young—not officially unemployed*
- b) A recent college graduate looking for work. *Frictionally unemployed*
- c) A teller replaced by an ATM, looking for work. *Could be structurally unemployed if his skills are obsolete*
- d) An 18 year old, fired from McDonald's because he couldn't read or write, looking for work. *Structurally.*
- e) A clown laid off due to a recession. *Cyclically unemployed*
- f) A recently laid off engineer working part time at Luby's. *Not officially unemployed*

2. In a fake economy only two final goods are produced, bread and butter. Complete the following table.

Year	Bread		Butter		Real GDP	Nominal GDP	GDP Deflator
	Price	Quantity	Price	Quantity			
1995	\$1	10	\$2	20	<u>50</u>	<u>50</u>	100
1996	\$2	15	<u>3</u>	18	<u>51</u>	84	164.7 <u> </u>

Now calculate the 1995-1996 inflation rate. *64.7%*

3. In 1986, a gallon of gas cost \$1 and the consumer price index was 110. In 1998, a gallon of gas is \$1.05 and the CPI is 161. Calculate which had risen faster over the period 1986-1998--the average price level or the price of a gallon of gas. Show your calculations.

Gallon of gas' price rose 5%, while average price level rose by 46.36%