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Principles of Economics

Measuring Macroeconomic Performance Study Questions

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%