Chapter 21

* In July 2009, in the economy of Sandy Island, 10,000 people were employed, 1,000 were unemployed, and 5,000 were not in the labour force. During August 2009, 80 people lost their jobs and didn’t look for new ones, 20 people quit their jobs and retired, 150 people were hired or recalled, 50 people withdrew from the labour force due to long time searching, and 40 people entered or reentered the labour force and are searching for jobs.
* Calculate for July 2009
* a. the unemployment rate: 9.09%
* b. the employment-to-population ratio: 62.5%

A typical family on Sandy Island consumes only juice and cloth. Last year, which was the base year, the family spent $40 on juice and $25 on cloth. In the base year, juice was $4 a bottle and cloth was $5 a length. This year, juice is $4 a bottle and cloth is $6 a length.

Calculate the CPI in the current year; calculate the inflation rate of this year;

Answer: CPI =107.7; inflation rate = 7.7%.

The IMF *World Economic Outlook* reports the price level data (2000 = 100) in the table.

1. Which region had the highest inflation rate in 2007 and which had the highest inflation rate in 2008?

Answer: 2007, US inflation rate=2.8%, Euro inf rate=3.08%, Japan inf rate =0;

2008: US, 2.99%; Euro 2.3%; Japan 0.71%

1. Describe the path of the price level in Japan.

Japan ‘s path is characterized by a stagnant price level in 2007, had a slight increase in 2008.

Chapter 23

Suppose that the government has a budget surplus of $1 trillion. What are the real interest rate, the quantity of investment, and the quantity of private saving?

Answer: real interest rate = 6%, I = 7.5tr, private saving = 6.5tr.

Suppose that the government has a budget deficit of $1 trillion. What are the real interest rate, the quantity of investment, and the quantity of private saving? Is there any crowding out in this situation?

Answer: real i=8%, I =6.5tr, private saving = 7.5tr, the amount of crowding out = 7-6.5=0.5tr.

Suppose that the government has a budget deficit of $1 trillion and the Ricardo-Barro effect occurs, what are the real interest rate and the quantity of investment?

Real I =7%, I =7tr.