

Problem Set Chapter 1 – Selected Assigned Problems Answers
GOUCHER COLLEGE
EC 217 - Intermediate Macro Theory
Spring 2015

Review Questions – Questions 8 and 9.

Numerical Problems – Question 1.

Working With Macroeconomic Data – Question 2.

Additional Problem: Consider the financial and economic crisis of 2008.

Based on what you know to date, whom do you blame?

Answers to Problem Set 1

Review Questions

8. Yes, it is possible for economists to agree about the effects of a policy (that is, to agree on the positive analysis of the policy), but to disagree about the policy's desirability (normative analysis). For example, suppose economists agreed that reducing inflation to zero within the next year would cause a recession (positive analysis). Some economists might argue that inflation should be reduced, because they prefer low inflation even at the cost of higher unemployment. Others would argue that inflation isn't as harmful to people as unemployment is, and would oppose such a policy. This is normative analysis, as it involves a value judgment about what policy should be.
9. Classical see wage and price adjustment occurring rapidly, while Keynesians think that wages and prices adjust only slowly when the economy is out of equilibrium. The classical theory implies that unemployment will not persist because wages and prices adjust to bring the economy rapidly back to equilibrium. But if Keynesian theory is correct, then the slow response of wages and prices means that unemployment may persist for long periods of time unless the government intervenes.

Numerical Problems

1. (a) Average labor productivity is output divided by employment:
2011: 12,000 tons of potatoes divided by 1000 workers = 12 tons of potatoes per worker
2012: 14,300 tons of potatoes divided by 1100 workers = 13 tons of potatoes per worker
- (b) The growth rate of average labor productivity is $[(13/12) - 1] \times 100\% = 8.33\%$.
- (c) The unemployment rate is:
2011: $(100 \text{ unemployed} / 1100 \text{ workers}) \times 100\% = 9.1\%$
2012: $(50 \text{ unemployed} / 1150 \text{ workers}) \times 100\% = 4.3\%$
- (d) The inflation rate is $[(2.5/2) - 1] \times 100\% = 25\%$.