Section 1: Measured Unemployment

Based on the reading from Chapter 15 and Lecture 10.

Suppose the following is a complete description of the adult population of the economy:

- a. ___ 10 are retired,
- b. ___ 5 people are in the military,
- c. ___ 5 people are in prison,
- d. ___ 15 people are stay-at-home parents,
- e. ___ 5 are students that work part time,
- f. ___ 5 are students that do not work,
- g. ___ 15 work in 1 part time job,
- h. ___ 5 work in 2 part time jobs,
- i. ___ 20 work full time in 1 job,
- j. ___ 5 work 1 full time job and 1 part time job,
- k. ___ 5 have no job and are applying for jobs,
- l. ___ 5 have a job, and are applying for a second job

a) In the blanks above, write “E” for employed or “U” for unemployed for each group. If they are neither, write “N”.

b) How many are counted as employed? _____________________

c) How many are counted as unemployed? ___________________

d) What is the unemployment rate? _________________________

e) What is the labor force participation rate? ________________

f) How is the unemployment rate affected by each of the following:
   - i. Some of the people looking for work give up looking. _________
   - ii. Some of the full time workers are reduced to part time work. _________
   - iii. Some of the workers who work 2 jobs lose one of them. _________
   - iv. Some people who work full time decide to retire. _________
Section 2: International Allocation Puzzle

Based on Lectures 7 and 11.

Suppose people in both China and the US have preferences given by a utility function: \( U = ab \), where \( a \) is consumption this year and \( b \) is consumption next year. Suppose China has an income of 480 this year and 1,000 next year, and the US has an income of 2,000 this year and 2,600 next year.

a) Suppose China and the US do not trade, so their consumption in both periods is equal to their income. What are their respective levels of utility?
US: __________  China: __________

b) Now suppose that they are able to trade. Suppose that China borrows 20 this year and pays back 30 to the US next year. Recompute utility for both countries. Who is better off?
US: __________  China: __________

c) Suppose, alternatively, that China lends to the US. Because US interest rates are low, China lends the US 20 this year and gets paid back 25 next year. Recompute utility for both countries.
US: __________  China: __________

d) What are two explanations of why China has such a high savings rate, even with high growth potential? (see Lecture 7)
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

e) What are some risks to the US associated with its high trade deficit?
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
Section 3: Exchange Rates and Net Capital Outflows

Based on Lecture 12 and chapter 19.

In each of the following situations use graphs to demonstrate how interest rates, the quantity of loanable funds, net capital outflows, net exports and exchange rates are affected.

1) There is an increase in the return on investments made in foreign countries.

2) The domestic government increases its budget deficit.

3) There is a reduction in tariffs charged on imports from abroad.

4) A new technology makes domestic firms want to invest more.
Section 4: “Continental Breakup”

Please listen to the following episode of This American Life:

http://www.thisamericanlife.org/radio-archives/episode/455/continental-breakup

a) At its implementation, what were the goals of the creation of the Euro?
________________________________________________________________________
________________________________________________________________________

b) What does the phrase “becoming more German” mean in the program?
________________________________________________________________________
________________________________________________________________________

c) What effect did the introduction of the Euro have on Greek credit markets?
________________________________________________________________________


d) What effect did the Euro have on government spending projects in Greece, Spain and other countries?
________________________________________________________________________
________________________________________________________________________

e) What event (associated with a change in government) made people worry about the Greek economy?
________________________________________________________________________
________________________________________________________________________

f) How did that event affect Greek debt?
________________________________________________________________________
________________________________________________________________________

g) How did the crisis affect Greek consumers?
________________________________________________________________________
________________________________________________________________________

h) If Greece was not part of the Euro, what is one way they could respond to the crisis that they cannot do now?
________________________________________________________________________
________________________________________________________________________

i) In your opinion, who is most responsible for the situation in Greece? Why?
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
Section 5: Sargent Nobel Prize Lecture

Please watch the following lecture by Tom Sargent:


a) What was the source of the debts that US federal and state governments had incurred at the end of the 18th century?

b) What are two reasons that governments may have high debts today?

c) What are high government debts today a signal of?

d) Suppose a government wants to increase the value of its debt. What are two things they can do?

e) What were two differences in how the government operated under the Articles of Confederation and under the US Constitution?

f) How did the US Constitution resolve the debt crisis?

g) Why did the federal government not bail out state debts in the 1840s?

h) What are two similarities and two differences between the US debt crisis of the 1780s and the ongoing European debt crisis?
Section 6: Unemployment in your Assigned Country

What country were you assigned to study? ______________________________

Go to the following link:


3) Find the name of your country, then select the “Series” tab, go to the “U” heading and select all series that start with “Unemployment”, then select the “Time” tab and choose all years from 2008 to the latest available. Then press “Table” in the top right.

4) If the table has numbers in it, print and attach the table to your homework and go to part 3. If the table has no numbers, then the World Bank has no information about unemployment for your country. Instead go here:

http://www.tradingeconomics.com/country-list/unemployment-rate

Find your country (may need to use the continent tab below the map), and click on it to get all available information. Do your best to answer question 4 with this or other information you can find. List any other sources you use.

5) How has unemployment in your country’s recent past changed? Is this change due to some recent event in the history of your country? ______________________________

___________________________________________________________________________

___________________________________________________________________________

___________________________________________________________________________

6) What does the composition of unemployment across different groups tell us about special challenges your country faces? Does the composition suggest any measures that the government could or should take to combat unemployment problems?

___________________________________________________________________________

___________________________________________________________________________

___________________________________________________________________________

___________________________________________________________________________

___________________________________________________________________________

___________________________________________________________________________