Macroeconomics 3340 – Fall, 2013
Professor McCollough
Problem set # 3
Student name ___________________________

1) Look at figure 5-1 . Output is on the horizontal axis and demand is on the vertical axis. The book states that as output increases then demand increases for 2 reasons. State them and describe why they are an increasing function with respect to income (2-3 sentences or less for each) (2 pnts)

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2) The ZZ curve shown in figure 5-1 and 5-2 is represented by the GDP components of C+I+G. What happens to the ZZ curve when interest rates increase. Explain why (3-4 sentences or less) 1 pnt

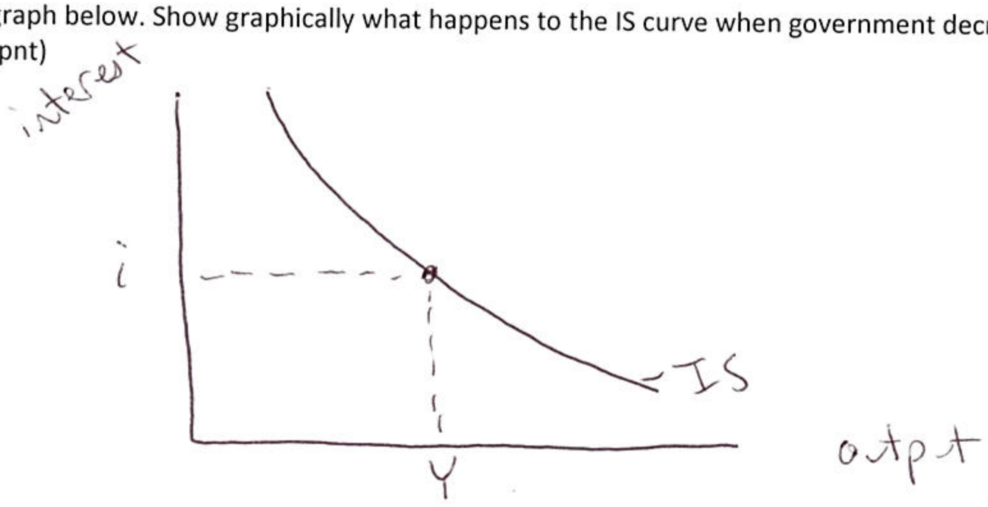
3) The ZZ curve shown in figure 5-1 and 5-2 is represented by the GDP components of C+I+G. What happens to the ZZ curve when interest rates decrease. Explain why (3-4 sentences or less) 1 pnt

4) With respect to the IS curve shown in figure 5-2b, national output decreases as interest rates increase. Why is this the case? Write in terms of business investment spending and consumer purchases (2 pnts).

* Business investment spending (2 sentences or less)

* Consumer spending (2 sentences or less)

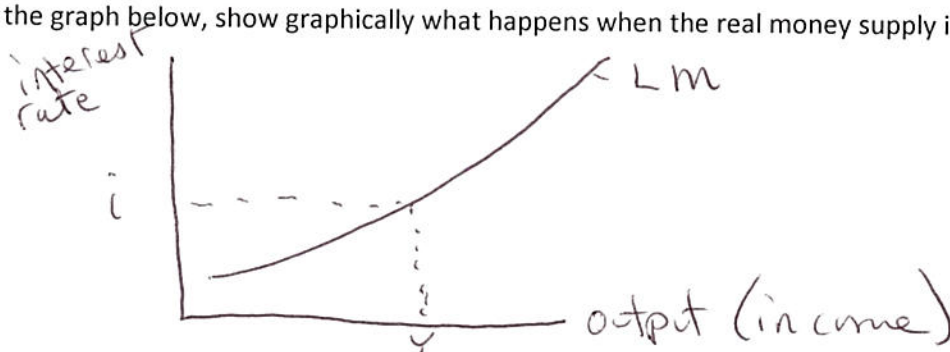
5) View the graph below. Show graphically what happens to the IS curve when government decreases spending (1 pnt)



6) What happens to the IS curve when consumer confidence increases (describe in 1-2 sentences or less) (1 pnt)

7) With respect to the LM curve shown in figure 5-4b, the LM curve shows the financial markets to be in equilibrium. What specifically does this mean? (3-4 sentences or less) (1 pnt)

8) Looking at the graph below, show graphically what happens when the real money supply increases (1 pnt)

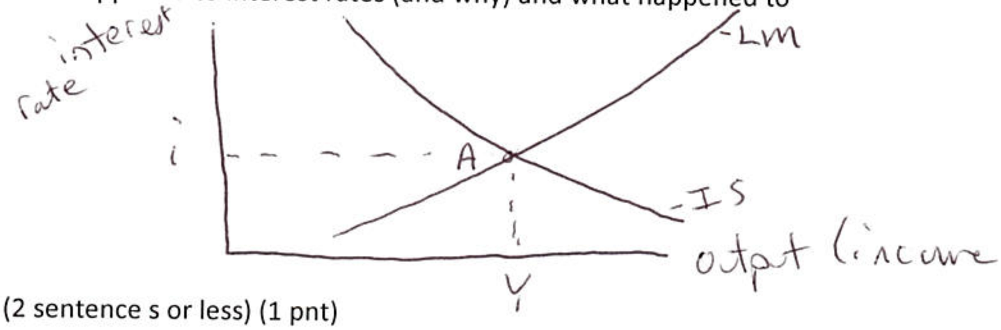


9) In Figure 5-6, what condition exists only at pnt A (3 sentences or less) (1 pnt)

10) Look at figure 5-7c. Why do we move from point A to D (2-3 sentences or less) (1 pnt)

11) Look at figure 5-7c. The income (output) associated with pnt D is less than Y'. Why do we move from D to A'. You need to tell specifically why interest rates goes from I to I' and why output (income) increases from a level associated with pnt D to a level associated with point A'. (1 pnt)

12) View the graph below. The economy is initially at pnt A. Show what happens when the Fed. Reserve Bank decreases the real money supply. Mark the new equilibrium point as pnt A' and explain in words why we went from A to A' and what happened to interest rates (and why) and what happened to income and why. (1 pnt)



14) What is a reservation wage (2 sentence s or less) (1 pnt)

15) What are efficiency wages and why would employers want to pay an efficiency wage (3-4 sentences or less) (1 pnt)

16) Look at equation 6-1. It states that the W is a function of the unemployment rate (as well as the expected price level and other variables) . When the unemployment rate is high, how do you think this will impact the wage that workers are will to accept. (1-2 sentences or less) (1 pnt)

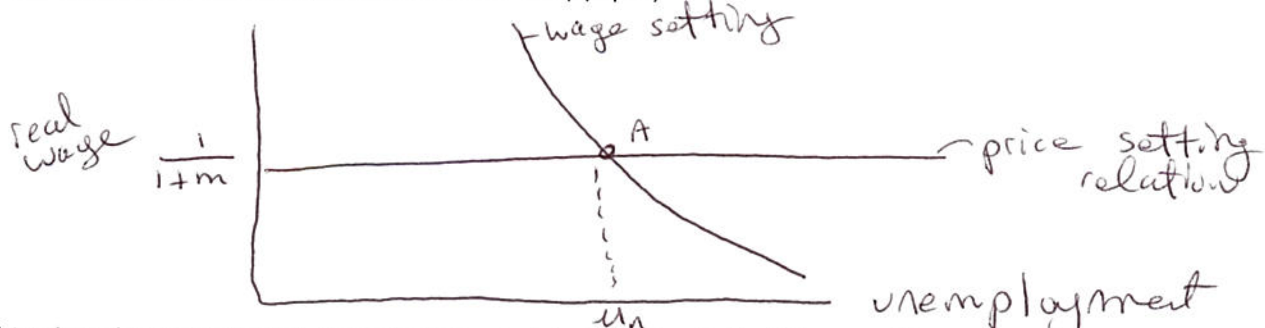
17) Equation 6-1 states that the wage is a function of another of other variables, called Z. One other variable is unemployment insurance. How does unemployment insurance impact wages that workers are willing to accept? (1 pnt)

18) How does employment protection laws impact the real wage that workers are willing to accept (such as a law requiring firms to have just cause in firing somebody) (2-3 sentences or less). In other words, how does this cause workers to demand higher wages (1 pnt)

19) How does the expected price level impact the wage workers are willing to accept? – explain (3-4 sentence or less). In other words, how does this cause workers to demand higher wages. (1 pnt)

20) The more a society is defined by monopoly type businesses then the higher the wage employers are willing to offer, is this true or false according to the book. In other words, monopolies can charge a higher markup on their products, but how does this impact the worker's wages (3-4 sentences or less) (1 pnt)

21) Look at the graph below. Demonstrate graphically as to what will happen if we reduce unemployment benefits from 3 months of unemployment to 1 month of unemployment benefits. Why do you think this is the case (2-3 sentences or less) (1 pnt)



22) Look at the graph below. Demonstrate graphically as to what will happen if we reduce the amount of labor protection in this country (do away with labor unions for instance). Why do you think this is the case (2-3 sentences or less) (1 pnt)