

Problem Set #5Due Friday 4/21/06 by 6 p.m. in the Econ 101 slot in the Economics Alcove

Use a stapler! Write legibly and use full and grammatically correct sentences in your answers. Draw graphs neatly and label axes and points clearly. Each part below is weighted equally in grading, as are subparts within a part.

A. 1) Consider the following labor force data (in millions except for the unemployment rate):

Year	civilian population (noninstitutional) 16 years and older	civilian labor force			
		total	employed	unemployed	percent unemployed
1960	117.2	69.6	65.8	3.8	5.5
1965	126.5	74.4	71.1	3.3	4.5
1970	137.1	82.8	78.7	4.1	4.9
1975	153.2	93.7	85.8	7.9	8.4
1980	167.7	106.9	99.3	7.6	7.1
1985	178.2	115.5	107.2	8.3	7.2
1990	189.2	125.8	118.8	7.0	5.6
1995	198.6	132.3	124.9	7.4	5.6
2000	212.6	142.6	136.9	5.7	4.0
2005	226.1	149.3	141.7	7.6	5.1

Complete the table below by computing the changes in absolute and percentage terms in total civilian labor force and employment for the period from 1960 through 2005. Did unemployment during the late 1970s reflect slower growth in jobs or more rapid increases in the labor force? What about during the 1980s? What about during 2000-05?

	<u>ΔLabor force</u>	<u>Percent change</u>	<u>ΔCivilian employment</u>	<u>Percent change</u>
1960-1965				
1965-1970				
1970-1975				
1975-1980				
1980-1985				
1985-1990				
1990-1995				
1995-2000				
2000-2005				

- 2) a. The labor force participation rate for married women increased from 30 percent in 1960 to well over 50 percent by 1990. Would you expect GDP to be affected as more married women move into the labor force? Why or why not? How do you think this increase in female labor force participation has affected the unemployment rate?
- b. There has been a large rise in years of schooling for all groups in the labor force over the past 45 years. For example, in 1960, 60 percent of 25- to 29-year-olds had 4 years of high school and 11 percent had attended college for 4 years. By 1990, the percentages had risen to 87 and 25 percent, respectively. How should this affect structural employment?

- A. 3) Do Problem 9 on p. 483 in Chapter 22.
- 4) Do Problem 1 on p. 483 in Chapter 22.
- B. 1) We usually study and measure economic growth in macroeconomic terms. But in a market economy, who makes the decisions that lead to growth? What kinds of decisions and what kind of actions cause growth to occur? How might a detailed study of individual markets be relevant to understanding economic growth?
- 2) Define productivity. Why is rising productivity a more significant contributing factor for economic growth than simply increasing the quantity of productive resources?
- 3) Nobel Laureate in economics W. Arthur Lewis once stated: “The case for economic growth is that it gives man greater control over his environment, and consequently increases his freedom.” Explain why you agree or disagree with this statement.
- 4) Consider a developed economy that decides to achieve a zero rate of growth for the future. What implications would such a “stationary state” have for the processes of production and consumption?
- C. 1) Do Problem 2 on p. 487 in Chapter 22 Appendix.
- 2) Do Problem 3 on p. 487 in Chapter 22 Appendix.
- 3) Do Problem 4 on p. 487 in Chapter 22 Appendix.
- 4) Do Problem 5 on p. 487 in Chapter 22 Appendix.
- D. 1) Do Problem 3 on p. 544 in Chapter 25.
- 2) Do Problem 7 on p. 565 in Chapter 26.
- 3) a. Do Problem 1 on p. 546 in Chapter 25 Appendix A.
- b. Do Problem 2 on p. 546 in Chapter 25 Appendix A.
- c. What is the multiplier in part **a**? What is the multiplier in part **b**?
- d. Do Problem 3 on p. 546 in Chapter 25 Appendix A.
- 4) Consider the following economy:

$$AD = C + I + G + NX$$

$$C = 250 + .5DI, I=250, G=T=400, X = 40$$

and imports are a function of disposable income: $IM = .1DI$

Find the equilibrium level of GDP for this economy.
What is the multiplier for this economy? Why is it different than in part **3b**?