

**Name:**

ECON 311

**Quiz #4-B**

**TIME** 12.00    2.00    **TA** David Helge Martin

2/16/2004

1. Which of the following is NOT true?
  - a. According to the US establishment survey there has been a loss of 2.8 million jobs.
  - b. Most of the jobs lost were in the service sector.
  - c. The median length of unemployment for people went up from 6 weeks to 15 weeks during the last recession.
  - d. a. and b.
  - e. b. and c.
  
2. Which is Bernanke's major explanation for the slow recovery of the labor market?
  - a. Increased economic uncertainty.
  - b. Increased benefit costs to employers.
  - c. Strong productivity growth.
  - d. Structural change of the US economy.
  - e. Firm over-hired workers during the late 90s boom.
  
3. Why can increases in benefit costs NOT fully explain the slow recovery of the labor market?
  - a. Employers have partly recouped health and pension costs by raising wages more slowly.
  - b. Workweeks of existing workers have increased and firms have hired more temporary workers.
  - c. The share of private sector workers in defined benefit plans is only about 20 percent and falling.
  - d. a. and c.
  
4. The IMF claims that deficits
  - a. Don't matter. There is no long run effect on the economy.
  - b. Do matter. Interest rates will be high and slow down private investment and erode long-term productivity growth.
  - c. Do matter. Households have higher disposable income when taxes are cut. This will drive up consumption spending and lead to an increase in output.
  
5. Data on labor-force flows show that
  - a. Almost all separations are due to death.
  - b. Almost all separations are due to serious illness.
  - c. Almost all separations are quits.
  - d. Almost all separations are layoffs.
  - e. None of the above.

6. Which of the following represents labor productivity?
- The ratio of output to employment.
  - Workers per unit of capital.
  - Capital per worker.
  - Wages per hour.
  - The reservation wage.
7. Write down the general form of the wage-setting relation with expected price level  $P_e$ ,
8. Write down the price-setting equation.
9. Draw the wage-setting equation and the price-setting equation into the same diagram with the unemployment rate  $u$  on the horizontal axis and  $W/p$  on the vertical. Label the curves and the equilibrium unemployment rate!
10. In a new diagram what happens to the equilibrium unemployment if the markup increases? Indicate the old equilibrium by A and the new equilibrium by B.