Name: ECON 311 **Quiz #4-A**

TIME 12.00 2.00 **TA** David Helge Martin 2/13/2004

1. Which of the following does NOT indicate a relative weakness of the US labor market?
   a. The loss of 2.8 million jobs reported in the US establishment survey.
   b. A decline in hours worked per week.
   c. An increase in the 'index of help wanted advertising'.
   d. An increase in the median length of unemployment for people who lose their jobs.

2. Employment in manufacturing fell, because of
   a. A drastic decline in the production of manufactured goods in the US.
   b. Liberalized trade policy towards Mexico and China.
   c. Remarkable increase in labor productivity.
   d. None of the above.

3. 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.

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. The natural level of output is the level of output that occurs when
   a. The goods market is in equilibrium.
   b. The economy is operating at the unemployment rate consistent with both the wage-setting and the price-setting equation.
   c. The financial markets are in equilibrium.
   d. The unemployment rate is zero.
   e. Both the goods and financial markets are in equilibrium.

6. When the unemployment rate is high we would expect that
   a. The probability of losing a job is low.
   b. The probability of losing a job is high.
   c. The probability an unemployed individual will find another job is high.
   d. The separation rate will decrease.

7. Write down the general form of the wage-setting relation with expected price level Pe,

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. Label the curves and the equilibrium unemployment rate!

10. In a new diagram what happens to the equilibrium unemployment if the markup declines? Indicate the old equilibrium by A and the new equilibrium by B.