Wilf Csaplar Jr.   Economics 162   Homework #3   **Due Wednesday 9/25**

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1A) (5 points) What is the problem facing Social Security? What are the two big causes of this problem?
1B) (20 points) One proposal for reducing the problem is to raise the Social Security tax rate. How would this reduce the problem? Would you do that? Explain your logic.
1C) (20 points) One proposal for reducing the problem is to raise the retirement age. How would this reduce the problem? Would you do that? Explain your logic.

2) (10 points each) For each of the following events, determine what happens to the unemploy-ment rate and the labor force participation rate. If the unemployment rate changes, tell me which part changed. Explain your logic for the changes in the unemployment rate and the labor force participation rate as well as why you chose that type of unemployment. State the assumptions you make.
A) John was a lifeguard at a lake during the summer. The summer has now ended.
B) David was a steel worker at a plant which just closed.
C) Eleanor is so tired of looking for a job that she quit looking for a job.

3) (15 points) Suppose that at the beginning of the year, the price level was 500 and at the end of the year the price level was 510. Calculate the inflation rate showing all work. If everybody had predicted 4% inflation, then tell me two groups of people who were hurt by the actual inflation. Explain why they are hurt.

4) (10 points) Why does fully anticipated inflation hurt almost nobody? Explain your logic.