

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

1) (10 points each) For each situation described, determine what would happen to the labor force participation rate and the unemployment rate. Explain your logic.

A) You graduate and go directly to work for a company you already arranged to work for.

B) Your friend graduates without a job.

C) A person retires. Assume the person is not replaced immediately.

D) A person becomes so discouraged looking for a job, they quit looking.

2) (20 points) Are income and wealth stocks or flows? Explain your logic.

3) (15 points) Explain why the full employment rate of unemployment, a.k.a. natural rate of unemployment, is not 0%.

4) (25 points) Why is a high level of inflation considered bad by economists? What is wrong with the lay-person's argument that high inflation means you cannot afford what you used to buy?