1.

Compare and contrast the three types of unemployment: Frictional Unemployment, Structural Unemployment & Cyclical Unemployment.

If you were a policy maker which type of unemployment would be most bothersome to you?

2.

What costs are associated with inflation?  Explain at least 3 different costs that individuals or businesses experience when inflation rises.

3.

Explain why transfer payments are not included in GDP.

4.

Using the components of GDP covered in section 22.1 of your text, explain which component would be affected by the following (only one component should be chosen for each scenario):

          a.  You buy an Italian purse.

          b.  You buy a new house.

          c.  New lanes are added to Interstate 40.

          d.  You buy groceries.

          e.  You buy a new washer and dryer.

5.

Suppose the economy is at a macroeconomic equilibrium as is shown on Slide 40 of the Video link (Below) which is 25.6 Exhibit 1 & 2.  The government decides to give every taxpayer a $500 tax refund.

a.  What happens to the aggregate demand curve after the refund?

b.  What happens to the price level after this change?

c.  Is real wealth increased or decreased as a result of the refund?

VIDEO LINK https://vcampbethel.blob.core.windows.net/public/Courses/OL\_4020/Unit\_5/CPS\_OL\_4020\_unit5/CPS\_OL\_4020\_Unit\_5.mp4

6.

Review Section 22.7 in your text.  Compare and contrast the results of the Classical Model and the Keynesian model after an expansionary policy.  Keep in mind that the economy is in a recession and not at full employment.  Address the following:

a.  The shape of the aggregate supply curve in each model in both the long-run and short-run.

b.  The effect of an expansionary policy on aggregate demand in both the long-run and short-run.

c.  The effect of an expansionary policy on the price level in both the long-run and short-run.