**4.** In Northlandia, there are no labor contracts; that is, wage rates can be renegotiated at any time. But in Southlandia, wage rates are set at the beginning of each odd year and last for two

years. Why would equal-sized falls in aggregate output due to a fall in aggregate demand have different effects on the magnitude and duration of unemployment in these two economies?

**10.** Due to historical differences, countries often differ in how quickly a change in actual inflation is incorporated into a change in expected inflation. In a country such as Japan that

has had very little inflation in recent memory, it will take longer for a change in the actual inflation rate to be reflected in a corresponding change in the expected inflation rate. In

contrast, in a country such as Argentina, one that has recently had very high inflation, a change in the actual inflation rate will immediately be reflected in a corresponding change in the

expected inflation rate. What does this imply about the short run and long-run Phillips curves in these two types of countries? What does this imply about the effectiveness of monetary and fiscal policy to reduce the unemployment rate?

**5.** Concerned about the crowding-out effects of government borrowing on private investment spending, a candidate for president argues that the United States should just print

money to cover the government’s budget deficit. What are the advantages and disadvantages of such a plan?

**6.** Boris Borrower and Lynn Lender agree that Lynn will lend Boris $10,000 and that Boris will repay the $10,000 with interest in one year. They agree to a nominal interest rate of 8%,

reflecting a real interest rate of 3% on the loan and a commonly shared expected inflation rate of 5% over the next year.

**a.** If the inflation rate is actually 4% over the next year, how does that lower-than-expected inflation rate affect Boris and Lynn? Who is better off?

**b.** If the actual inflation rate is 7% over the next year, how does that affect Boris and Lynn? Who is better off?