



5. Suppose that on average when people get an increase in income of \$200, their savings increases by \$10, and their purchases of imported goods increases by \$30.
- (a) (5 points) Suppose a drop in consumer confidence leads to a decrease in consumption spending plans by \$500 billion. Calculate the immediate effect on real GDP.
- (b) (5 points) Suppose the economy is in a recession, real GDP is currently \$19 trillion and potential GDP is \$20 trillion. The president decides to increase government spending to solve the problem. By how much should government increase its spending?
6. Suppose an increase in global trade causes a change in consumer behavior such that given an increase income, the fraction that is spent on imports becomes larger.
- (a) (5 points) What is the effect on the expenditure multiplier?
- (b) (5 points) What is the implication for the ability of the government to influence real GDP with government expenditure policies?

7. (5 points) An earthquake in Nepal destroys many businesses' buildings, infrastructure, and factories. Describe and illustrate the impact on equilibrium investment and interest rate.
8. (5 points) Suppose while balancing the government budget constraint, the government gives larger tax incentives for people to save for retirement. Describe and illustrate the impact on the equilibrium level of investment and interest rate.
9. (5 points) Suppose a poor, under-developed country develops a new network of roads and highways that makes development of new manufacturing facilities, warehouses, and distribution centers more productive / more profitable. Describe and illustrate the impact on the equilibrium level of investment and equilibrium interest rate.

10. (5 points) Suppose the federal government cuts Social Security retirement benefits. Describe and illustrate the impact on equilibrium employment and wages.
11. (5 points) Suppose there is an improvement in communication technology that makes many workers more productive. Describe and illustrate the impact on equilibrium employment and wages.
12. (5 points) Suppose there is an increase in immigration into the United States. The immigrants seek employment and consume final goods and services. Describe and illustrate the impact on equilibrium employment and wages.
13. (5 points) Retail businesses experience higher demand for goods and services during the holiday season. Describe and illustrate the impact on equilibrium wages and employment in the retail sector.

14. Suppose the country of LoompaLand has a non-institutionalized, civilian adult population of 20,000. Of these people (Oompa Loompas, actually), 5,000 are employed at Willy Wanka's Chocolate Factory; 4,000 are employed as chocolate industry spies by Sluggworth's Chocolates; 3,000 are employed as vocalists in the local music industry; another 2,500 Oompa Loompas are looking for jobs, but are not yet employed; and 3,500 Oompa Loompas are not employed, but are not looking for jobs because they became frustrated and gave up trying to find a job. The remaining 2,000 Oompa Loompas are retired.

(a) (5 points) Define the **labor force participation rate**. Compute the labor force participation rate for LoompaLand.

(b) (5 points) Define the **unemployment rate**. Compute the unemployment rate for LoompaLand.

(c) (5 points) Define **discouraged worker**. How many discouraged workers are there in LoompaLand?

(d) (5 points) Suggest two problems with using the headline unemployment rate as a measure for the health of the labor market.