

ECON2113 Macroeconomics

Chapter 7 Exercises

1. Discuss how the following changes would affect the natural (or frictional) rate of unemployment:
 - a. Increased participation of teenagers in the labor market.
 - b. Larger fluctuations in the level of aggregate demand.
 - c. Increase in unemployment benefits.
 - d. Elimination of minimum wages.
 - e. Larger fluctuations in the composition of aggregate demand.
2. A reduction in minimum wages during the summer months would reduce the cost of labor to firms, but it would also reduce the wage that minimum-wage earners receive.
 - a. Who would benefit from this measure?
 - b. Who would lose?
 - c. Would you support this program?
3. The following information is to be used for calculations of the unemployment rate: Suppose there are two major groups, adults and teenagers, with adults divided into men and women. Teenagers account for 10% of the labor force; adults account for 90%. Women make up 35% of the adult labor force. Suppose also that the unemployment rates for these groups are as follows: teenagers, 19%; men, 7%; women, 6%.
 - a. Calculate the aggregate unemployment rate.
 - b. What is the share of teenagers in the labor force increases from 10 to 15%? How will this affect the aggregate unemployment rate?