

Nanyang Technological University
School of Social Sciences

HE2002 Macroeconomics II AY23-24 SEMESTER 2

Tutorial 6

1. **Chapter 7, Q1.**

Using the information in this chapter, label each of the following statements true, false, or uncertain. Explain briefly.

- (a) The unemployment rate tends to be high in recessions and low in expansions.
- (b) Workers who do not belong to unions have no bargaining power.
- (c) It may be in the best interest of employers to pay wages higher than their workers' reservation wage.
- (d) The natural rate of unemployment is unaffected by policy changes.

2. **Chapter 7, Q3. The natural rate of unemployment**

Suppose that the markup of goods prices over marginal cost is 5%, and that the wage-setting equation is

$$W = P(1 - u)$$

where u is the unemployment rate.

- (a) What is the real wage, as determined by the price-setting equation?
- (b) What is the natural rate of unemployment?
- (c) Suppose that the markup of prices over costs increases to 10%. What happens to the natural rate of unemployment? Explain the logic behind your answer.

3. **Chapter 7, Q6. The existence of unemployment**

- (a) Why does the wage-setting relation in the Figure have a downward slope? As employment N approaches labor force L , what happens to the unemployment rate?
- (b) The price-setting relation is horizontal. How would an increase in the mark-up affect the position of the price-setting relation in the Figure? How would an increase in the mark-up affect the natural rate of unemployment in the Figure?

