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Section 6
Homework 2

4) Homemakers are not included in the employment or labor force totals compiled in the Bureau of Labor Statistics household survey. They are included in the working-age population totals. Suppose that homemakers were counted as employed and included in the labor force statistics. What would be the impact on the unemployment rate and the labor force participation rate?

Answer:
The unemployment rate would decrease since the size of the labor force increases with the number of homemakers. Hence the labor force participation rate would increase.

12) Between December 2001 and January 2002, the total number of people employed and the unemployment rate both fell. Briefly explain how this is possible.

Answer:
If between the period an amount of employed people retired and currently unemployed workers took their job, it is possible. For example let us consider a labor force of 10000 people where the unemployment rate is 20% percent therefore 2000 people are unemployed. If 200 of the employed people retired and their jobs would be taken by 150 of the unemployed the labor force would decrease by 200 becoming 9800. The number of employed would fall by 200-150=50 people. And the unemployment rate would be $\frac{1850}{9800} * 100 \simeq 18.88$ there would fall by approximately 1.12%.

17) Consider a simple economy that produces only three products. Use the information in the following table to calculate the inflation rate for 2006 as measured by the consumer price index taking the 1999 as the base year:

Answer:
Expenditures in 1999 = 2 x 10 + 10 x 2 + 6 x 15 = 130
Expenditures in 2005 = 2 x 11 + 10 x 2.45 + 6 x 15 = 136.5
Expenditures in 2006 = 2 x 16.2 + 10 x 2.4 + 6 x 14 = 140.4

CPI of 2005 = (136.5 / 130) * 100 = 105
CPI of 2006 = (140.4 / 130) * 100 = 108

Inflation rate of 2006 = (108 - 105) / 105 x 100 $\simeq 2.9\,\%$

22) During the late nineteenth century in the United States, many farmers borrowed heavily to buy land. During the most of the period between 1870 and the mid-1890s, the United States experienced mild deflation. The price level declined each year. Many farmers engaged in political protests during these years and deflation was often a subject of their protests. Explain why farmers would have felt burdened by deflation.

Answer:
When farmers borrowed money, they had nominal interest rates for when they had to pay the money back. With inflation we would decrease the CPI from this rate to understand the real interest rate. With deflation the CPI is negative therefore we are in fact adding to the nominal interest rate. For example if the farmer borrowed money with 5% interest, during deflation their real interest rate might be 10 percent. Simply as opposed to before the money they pay back now, would be worth more opposed to the time they borrowed it which would burden them.