

Q-1. Solution: A.

The participation ratio (or activity ratio) is the ratio of the labor force to total population of working age and the unemployment rate is the ratio of the number of unemployed to the labor force. Labor force is the numerator in the participation ratio and denominator in the unemployment rate. Therefore, assuming all else remains unchanged, an increase in the number of people included in the labor force would cause the participation ratio to increase and unemployment rate to decrease.

Q-2. Solution: A.

If stock prices rise, the aggregate demand curve will shift to the right (increase in AD) because of higher consumption (wealth effect), not lower investments.

Q-3. Solution: B.

Average weekly initial claims for unemployment insurance is a leading indicator of economic activity and a decrease in it is an indicator of rehiring at the start of a recovery.

Q-4. Solution: B.

By reducing employee illness, the new technology will increase the output per hour per worker, which will decrease the unit labor cost. As the unit labor cost decreases, cost-push inflation decreases. The technology does not affect demand and accordingly should not affect demand-pull inflation.

Q-5. Solution: C.

Declines in short-run aggregate supply bring about stagflation, an economic situation with a combination of high inflation and high unemployment.