

## Introductory Macroeconomics

In-Tutorial #2  
Week Starting 15th March 2021

### Questions.

1. Inflation and the value of money:
  - (a) The average quarterly inflation rate in Australia from 1973-1979 was 2.9 percent. What is the implied average annual inflation rate for each of these periods?
  - (b) Suppose an individual began 1973 with \$100 and the quarterly inflation rate was 2.9 percent. What would the individual's real value of wealth (in 1973 dollars) be at the end of 1979 if they had held their wealth in cash with a zero nominal interest rate?
  - (c) A *hyperinflation* is a situation where the inflation rate becomes very high for a period of time. A specific but somewhat arbitrary definition is that a hyperinflation occurs when the monthly inflation rate exceeds 50 percent. Suppose an individual began with \$100 of wealth in 1973 and the *monthly* inflation rate was 50 per cent. What would be the individual's real value of wealth (in 1973 dollars) be at the end of 1979 if they held their wealth in cash with a zero nominal interest rate?
2. Briefly discuss the *costs of inflation* during a hyperinflation.
3. Label each of the following statements true, false or uncertain and give a brief explanation:
  - (a) Since 1980, the participation rate in Australia has remained roughly constant at 60%.
  - (b) Each month, the flows in and out of employment are very small compared with the size of the labour force.
  - (c) On average, about one-fifth of unemployed workers exit unemployment each month.
  - (d) The unemployment rate tends to be high in recessions and low in expansions.



