EC 103–003

Problem Set 2

Prof. Santetti

Spring 2023

INSTRUCTIONS: Carefully read all problems.

Your answers must be **handwritten**, scanned (you may use a phone app such as *CamScanner*), and submitted in a single PDF file with your *first name* (mine would be `marcio.pdf`). You can convert images to PDF format `here`. Also, you can merge different PDF files `here`.

Submit your files via `theSpring`. In case you experience any issues, email them to `msantetti@skidmore.edu`.

`Assignment due March 22, before class`.
`Points Possible: 40`

`PLEASE WRITE SO I CAN READ IT`.

- You have 2 weeks to complete this assignment. See our `course syllabus` for late submissions policies.

- Be honest. Don't cheat.

- As a Skidmore student, always recall your votes of academic integrity, and the `Honor Code` you have abided by:

> *"I hereby accept membership in the Skidmore College community and, with full realization of the responsibilities inherent in membership, do agree to adhere to honesty and integrity in all relationships, to be considerate of the rights of others, and to abide by the college regulations."*

Have fun!

Problem 1

This portion was performed in class as a group assignment. If you were part of a group and presented your views in class, you may *skip* this section. (*20 points*)

Problem 2

In the graph below, the historical series for the US unemployment rate (green) and real GDP (purple) are plotted together, as their % changes relative to the previous year in the sample period. Based on your readings and what was exposed in class, what do you observe in this chart, regarding how and economy grows and the state of its labor market? (*10 points*)

Real GDP and unemployment rate: % change from a year ago (1949Q1–2022Q2)
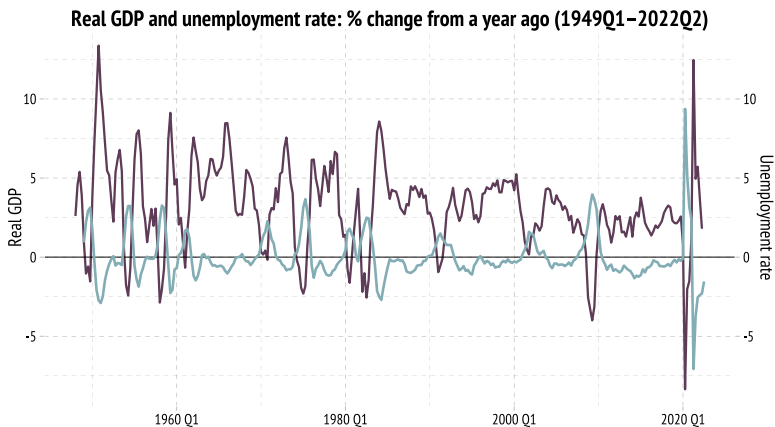
Problem 3

Listen carefully to `this recent episode` of `The Daily` podcast (NYT), and answer the following questions:

(a) What is the main/mostly used policy tool used by the US Federal Reserve (FED) to control inflationary surges? *(2 points)*

(b) What is the *mechanism* behind using the tool from part (a) to control rising prices? In other words, what are policy makers' expected results when applying this policy? *(2 points)*

(c) In an inflationary scenario, is it simple/fast to reflect policy measures to actual consumers/businesses behavior? Explain. *(2 points)*

(d) How does the FED policy tool influence the used-car market, as discussed in the podcast? Explain. *(2 points)*

(e) Relate the current inflationary scenario with (*i*) the ongoing FED policy, (*ii*) consumers' willingness to spend their money, and (*iii*) the used- and new-car markets. *(2 points)*