W17\_qp22 T1

a Aims of government have low unemployment and price stability.

b First, if there is an increase in total demand, it will cause an inflation. Because as aggregate demand increase, the price level of the country will increase and will cause demand-pull inflation.

Second, if there is an increase in cost of production, there will be an inflation. Because as cost of production increase the supply of firms will decrease and cause aggregate move to the left. As price level increase, there will be an cost-push inflation

c (120-66)/120\*100=45%

100.5\*(1+0.02)=102.51

d First, if unemployment increase, people who don’t have job will have no income so government will increase the spending on unemployment benefit so that people will have enough money to buy necessities.

Second, government have aim to have low unemployment, so government will increase the spending on subsidies to firms, so that firms will have more money and labor’s wage will be a small part of firm’s cost and employment will increase.

Third, if government increase the spending, the aggregate demand will increase, so that there will be an economic growth and will increase the demand for workers to increase output of firms, so employment will also increase.

e On one side, the supply of workers for unskilled jobs will be high.

First, if the country’s education and training to workers is very poor, most labor in the country will be unskilled workers, so they can only do low skilled job and the supply for unskilled job will be high.

Second, if the country’s wage pay to people doing unskilled job is relatively high, there will be more people want to do this job, since they can get more money and have better living standard, so the supply of workers for unskilled job is high in the country.

On the other side, the supply of workers for unskilled jobs will not be high.

First, if the country is a developed country, the most employment will be in the tertiary sector which is high-skilled job. So there will be more skilled workers and the supply of unskilled workers for unskilled job is low.

f As the supply of food increase, the price of the food decrease and more people can afford the food. Because food is a need many time to produce, so it have inelastic supply, so the price fall more than the quantity increase. Then, the revenue of the firms will decrease and the profit of the firm will decrease.

g On one side, a decrease in income tax will reduce the deflation.

First, as income tax decrease,the disposable income of workers will increase. If people have more money, they will have better purchasing power and consumption will increase. So that the aggregate demand will increase and will increase the price level and will reduce the deflation.

On the other side, a decrease in income tax will not reduce the deflation.

First, if the income tax reduce, the tax revenue of the government will decrease and budget deficit will occur. So the government will solve it by reducing the government spending. Then the aggregate demand will decrease and the price level will decrease which means deflation increase.

Second, as income tax reduce and people have more disposable income, labors will have more willingness to work, so their efficiency will increase and will cause an increase in the supply of firms. Then the aggregate supply will move to the right and cause a decrease in price level which means deflation increase.