

Macroeconomics questions assignment

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AT&T it represents savings because the check wasn't being spent on consumption goods.) Your roommate earning \$100 and depositing it into her bank account also represents saving because the money wasn't spent on consumption goods. D) Borrowing \$1000 from the bank to buy a car to use in your pizza delivery business represents Investment because the car is a capital good. Page 295 Question 2: a) People get the benefit from the market of insurance not to eliminate the risks but to spread them around more efficiently.) Two problems that impede insurance companies from working perfectly and their ability to spread risk are adverse selection and moral hazard. Adverse selection is when a high-risk person is more likely to apply for insurance than a low-risk person because a high-risk person would benefit more from insurance protection. Moral Hazard is how after people buy insurance, they have less incentive to be careful about their risky behavior because the insurance company will cover much of the resulting losses.

Page 295 Question 5: Determine the company's sales revenue and number of stocks, and looking at the potential growth or weaknesses that may be facing the company. Health insurance could be an adverse selection because if it's a person who has more health problems than the average healthy person they would benefit more from the insurance protection. A moral hazard for health insurance would be if after people got health insurance they stopped taking care of their health as well because they know they can fall back on the insurance.

Car insurance could be an adverse selection if a person has an unsafe car or a record of bad driving they would be at higher-risk and benefit more from

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insurance protection. People who just get car insurance could be a moral hazard because they know the insurance will cover a majority of their losses so they will stop driving as carefully. Chapter 15 Questions Page 318

Question 3: a) Frictional unemployment results because it takes time for workers to search for the jobs that best suit their tastes and skills.

Frictional unemployment is inevitable because frictional employment is often the result of changes in the demand for labor among different firms. There could also be changes in the composition of demand among industries or regions called secular shifts that cause temporary employment while workers are in transition to search for jobs in new sectors. Simply put, frictional unemployment is inevitable because the economy is always changing. People also leave their jobs to search for jobs that better suit their skills which also causes some frictional unemployment.) If the government wanted to reduce frictional unemployment they could have skills development seminars in order to ease the transition of workers from declining to growing industries. They could also have employment agencies to match the unemployed labor to jobs that match their skill set. Page 318 Question 7: A firm could increase its profits by raising the wages it pays because better paid workers are healthier and more productive, worker turnover is reduced, the firm can attract higher quality workers and worker effort is increased. Page 319 Question 7: a) If manufacturing workers formed a union, I would predict that the wage would rise and the quantity of labor demanded would decrease. Because the wage is higher, the quantity of labor supplied would increase, so there are unemployed workers in the unionized manufacturing sector. B) When the workers become unemployed in the

manufacturing sector they will seek employment in the service labor market. The result of a larger supply of labor results in a lower wage in the unionized service sector and an increase in employment.

Chapter 16 Questions Page 345 question 2: Intrinsic value means that the item would have value even if it were not used as money such as gold. Fiat money is money without intrinsic value that is used as money because of government decree. The paper dollars that we use are fiat money, each dollar reads, " This note is legal tender for all debts, public and private. Page 345 Question 9: Reserve requirements are regulations on the minimum amount of reserves that banks must hold against deposit.

When the Fed raises reserve requirements there are less loans made and the overall money supply shrinks. Page 346 problem 7: You would use the money multiplier which is $1/.05$ so 20. The maximum expansion of the money supply that occurs when the deposit that is made is 20 times the initial deposit which means we get 40,000 in money supply for the \$2000 in cookie jar money. If one creates more it expands the supply by the money created.