

# [Micro economic home work](https://assignbuster.com/micro-economic-home-work/)

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1. How do " rules the game" affect productivity and growth? What types of " rules" should a government establish to encourage growth Rules of the game affect the belief of the investors and the people who are engaging or willing to engage the productivity activities. It promotes the economic activity through formal and informal systems. The government have to establish the stabilized regulations, laws and well definition of the property rights in order to encourage people engage the economic activities. 2. Explain how technological change can lead to unemployment in certain industries.

How can it increase employment? Technological change can improve the quality of the capital, the repeating activities during the production can be performed by the machine, the automobile and farming industries are the typical instances, so the labor needs are reduced for these activities. However, the technological change improve the productivity, so the economic growth as a whole, the displaced workers therefore benefit from the economic growth. The displaced workers find other Jobs for producing the goods and services, which are demanded during the economic growth. . Define the economy's potential output. What factors help determine potential output? Potential output stats output level of real GAP sustainable maintains at the highest level, the cyclical unemployment rate is zero; the opening Jobs equal to the people unemployed by the reasons of structure, frictional, and seasonal. The real GAP, unemployment rate of cyclical, structure, frictional seasonal, growth rate of wage, inflation rate and productivity possibilities frontier are the factors to help determine the potential output. 4.

How does an economy that is experiencing an expansionary gap adjust in the long UN? When the economy experiences the expansionary gap in the long run, it produces more than the potential output, the price is higher than the expectation, and the wages of labor will translate into a lower than expected real wage, and the resource supplier and labors will renegotiate the resource price and the wage. Therefore, the total cost will increase, and the SARA will shift to left until matching the higher price level at the potential output in long term. 5.

Determine whether each of the following, other things held constant, would lead to Micro Economic Home Work By southeastward a. An improvement intechnologyIncrease b. A permanent decrease in the size of the capital stock Decrease c. An increase in the actual price level No change d. An increase in the expected price level e. A permanent increase in the size of the labor force 6. Why would the following investment expenditures increase as the interest rate declines? A. Purchases of a new plant and equipment Interest rate declines, the cost of borrowingmoneyis lower, , so it stimulates the investment.

Purchase of a new plant and equipment is an investment activity. Because the opportunity cost is reduced as interest rate decline, the purchase Hereford increases. B. Construction of new housing It is same as " a", the lower interest rate stimulates the investment. Construction of new housing is an activity of investment in order to satisfy the aggregate demand. C. Increased inventories Inventories are a portion of the investment. When the interest rate declines, the firms increases their inventories with the lower opportunity cost. 7.

Define fiscal policy. Determine whether each of the following, other factors held constant, would lead to an increase, a decrease, or no change in the level of real GAP demanded: Fiscal policy is the use of government activities to influence the macroeconomic variable factors. The activities are government purchases, taxes, borrowing and transfer payments. The variables are real GAP, price level, employment rate and economic growth rate. A. A decrease in government purchases Leading to a decrease in the level of real GAP demanded. C.

A reduction in transfer payments d. A decrease in the marginal propensity to consume Leading to an increase in the level of real GAP demanded 8. Often during recessions, the number of young people who volunteer for military revive increases. Could this rise be considered a type of automatic stabilizer? Why or why not? Yes, it is a type of automatic stabilizer, because it is government spending, and it is continuous year by year. 9. Distinguish between discretionary fiscal policy and automatic stabilizers. Provide examples of automatic stabilizers.

What is the impact of automatic stabilizers on disposable income as the economy moves through the business cycle? Automatic stabilizers are revenue and spending program to smoothly and automatically adjust the economy, for example: the government taxes, it is continually adjust the disposable income, consumption and real GAP year by year. Discretionary fiscal policy is for achieving a macroeconomic goal in a short term. Automatic stabilizer slow the reducing rate of disposable income during the recessions and the increasing rate during the economic expansions. 10.

Using the aggregate demand-aggregate supply model, illustrate an economy with an expansionary gap. If the government is to close the gap by changing government purchases, should it increase or decrease those purchases? In the long run, what happens to the level of real GAP as a result of government intervention? What happens to the price level? Illustrate this on an AD-AS diagram, assuming that the government changes its purchases by exactly the amount necessary to close the gap. See the yellow page 1 1 . Suppose the Fed wishes to use monetary policy to close an expansionary gap. . Should the Fed increase or decrease the money supply? Fed have to decrease the money supply for shifting the AD to left. Securities? Fed have to sell the government securities to collect the cash back in order to reduce the money supply. D. Determine whether each of the following increases, decreases, or remains unchanged in the short run: The market interest rate, 0 increase The quantity of money demanded Decrease Investment spending 0 decrease Aggregate demand 0 decrease Potential output 0 remaining unchanged The price level Decrease Equilibrium real GAP 0 decrease 12.