

# Micro economic home work

[Life](#), [Home](#)



1. How do "rules of 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 in productivity activities. It promotes economic activity through formal and informal systems. The government has to establish stabilized regulations, laws and well-defined property rights in order to encourage people to engage in 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 capital, and repeating activities during production can be performed by machines. The automobile and farming industries are typical instances, so labor needs are reduced for these activities.

However, technological change improves productivity, so economic growth as a whole. Displaced workers therefore benefit from economic growth. Displaced workers find other jobs for producing goods and services, which are demanded during economic growth.

Define the economy's potential output. What factors help determine potential output? Potential output is the output level of real GDP that 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 GDP, 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 run? 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 laborers will renegotiate the resource price and the wage. Therefore, the total cost will increase, and the aggregate supply curve will shift to the 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 in technology Increase 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 borrowing money is 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 declines, the purchase hereof 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 increase 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 GDP 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 GDP, price level, employment rate and economic growth rate. A. A decrease in government purchases leading to a decrease in the level of real GDP 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 GDP demanded 8. Often during recessions, the number of young people who volunteer for military service 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 programs to smoothly and automatically adjust the economy, for example: the government taxes, it continually adjusts the disposable income, consumption and real GDP 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 GDP 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 11. 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 GDP 0 decrease 12.