Chapter 15 Quiz

1. (12 pts) Indicate whether the individual is classified as unemployed, employed, or Not in the Labor Force by the BLS
   a. Rosa, an older worker who lost her job months ago and gave up looking for one by now.
   b. Anthony, a schoolteacher who is not working during his three-month summer break.
   c. John, a laid off auto worker expecting recalls from his plants.
   d. Grace, an investment banker who has been laid off and is currently searching for another position.
   e. Sergio, a classically trained musician who can only find work playing for local parties.
   f. Natasha, a graduate student who went back to school because jobs were scarce.

2. (10 pts) An economy’s natural rate of unemployment is the
   a. economy’s longrun target level of unemployment.
   b. amount of unemployment that the economy normally experiences.
   c. lowest rate of unemployment the economy can achieve.
   d. All of the above are correct.

3. (8 pts) Indicate, all else equal, whether each of the following would increase the unemployment rate?
   (i) an increase in the number of women who return to work after being stay-at-home mothers
   (ii) a preference among older men to retire early
   (iii) an increase in the maximum number of weeks for which someone can receive government unemployment benefits
   (iv) an increase in the number of previously unemployed women who stop looking for work and become discouraged workers

4. (10 pts) The table below uses data for the year 2003 provided by the Bureau of Labor Statistics and adjusted to be comparable to U.S. data. All values are in thousands. Fill in the blank entries in the table.

<table>
<thead>
<tr>
<th>Country</th>
<th>Adult Population</th>
<th>Labor Force</th>
<th>Employed</th>
<th>Unemployed</th>
<th>Unemployment Rate</th>
<th>Labor-Force Participation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>109,474</td>
<td>62,510</td>
<td></td>
<td>3,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>26,870</td>
<td>2,577</td>
<td></td>
<td></td>
<td>57.41</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>109,474</td>
<td>39,591</td>
<td></td>
<td></td>
<td>9.69</td>
<td></td>
</tr>
</tbody>
</table>
5. (14 pts) Indicate whether each unemployment situation is frictional, structural, or cyclical.
   a. Jackie, who moved to Atlanta with her husband, has to quit her old job and haven’t find a new one yet.
   b. Hilary, a graduate student, lost her teaching assistant job because the University of Illinois can’t afford her any more after recent agreement with the G.E.O.
   c. Amy who used to work for a software company was laid-off after her company downsized during 2007-2009 recession.
   d. Joe, an auto worker, lost his job permanently. He currently goes to workshops on how to use computers and hope to find an office job.
   e. Jerome, a teenage high school drop out, couldn’t find anyone that is willing to hire him at the current minimum wage.
   f. John used to work at customer support at GE. He and many of his coworkers are replaced by computers.
   g. Madam Marseille lost her French teacher position in Atlanta Public School district due to budget cut.

6. (6 pts) In the 1990’s Ireland made unemployment benefits less generous. This change would likely have reduced
   a. both structural unemployment and the natural rate of unemployment.
   b. structural unemployment but not the natural rate of unemployment.
   c. both frictional unemployment and the natural rate of unemployment.
   d. frictional unemployment but not the natural rate of unemployment.

7. (10 pts) Unions contribute to
   a. structural unemployment but not the natural rate of unemployment.
   b. the natural rate of unemployment but not structural unemployment.
   c. both structural unemployment and the natural rate of unemployment.
   d. neither structural unemployment nor the natural rate of unemployment.

8. (10 pts) Michael decides to hire some additional workers for his roofing company. The equilibrium wage is $17 per hour. Efficiency wage theory suggests that it is reasonable for Michael to offer
   a. $17 per hour.
   b. less than $17 per hour because some people would be willing to work for less.
   c. less than $17 an hour to prevent shirking.
   d. more than $17 per hour in order to attract a better pool of applicants.

Answer 2 out of the 3 questions below. (20 pts)

9. Explain why the unemployment rate calculated by the BLS is an imperfect measure of joblessness. What other statistics does the BLS calculate that might better measure the amount of joblessness in the economy?
10. Explain the concept of frictional unemployment? How does it differ from cyclical unemployment?
11. Explain how a minimum wage law adds to an economy’s structural unemployment. Use a graph to provide intuition.
9. Unemployment rate is imperfect measure of joblessness because it does not include discouraged workers (marginally attached workers), or underemployment of individuals. For this reason, the BLS calculates an unemployment rate that adds discouraged workers, adds marginally attached workers, and underemployed workers.

10. Frictional unemployment is seen as a temporary and voluntary state that is the result of the time it takes for an unemployed person to find a job out there that is a good fit for her skills. It is voluntary in the sense that one could get a job in another field/industry but the unemployed would turn it down because it is not a good match. Cyclical unemployment is likewise viewed as temporary, but differs in that it corresponds to a recessionary phase where pretty much all industries experience a decrease in demand. With frictional unemployment, whereas some industries shrink others are increasing.

11. If the minimum wage is above the wage the market establishes, it creates a surplus of workers. Whereas at the competitive wage, quantity demand exactly equals quantity supplied, at the minimum wage Quantity supplied exceeds Quantity demanded. Only the quantity demanded will be hired, so the difference is unemployed workers of the structural variety.