



Macroeconomics Unit 2

Free Response Questions

FRQ #1- The following table shows the number of people in each category for Country A.

Employed full-time	150,000
Employed part-time	10,000
Frictionally unemployed	15,000
Structurally unemployed	5,000
Cyclically unemployed	20,000
Of working-age, but not in the labor force	200,000

- Calculate the unemployment rate in Country A. Show your work.
- Is the natural rate of unemployment for Country A greater than, less than, or equal to your answer in part (a)? Explain.
- Calculate the labor force participation rate in Country A. Show your work.
- Assume that many of the people that were not in the labor force permanently moved to another country. Would the labor force participation rate in Country A increase, decrease, or stay the same? Explain.
- Assume instead that 10,000 cyclically unemployed people were able to get part-time jobs. Calculate the new unemployment rate. Show your work.

FRQ #2- The table shows the quantities and prices of the only three products produced in Country X. Assuming that 2020 is the base year.

	2020 Quantity	2020 Price (base year)	2021 Quantity	2021 Price
Apples	25	\$1	30	\$5
Shoes	5	\$8	7	\$10
Hats	15	\$4	16	\$5

- Calculate the nominal gross domestic product in 2020. Show your work.
- Calculate the real GDP in 2021. Show your work.
- Calculate the GDP deflator for 2021. Show your work.
- Assume that in 2018 wages increased 20% and the inflation rate was 50%. Did real wages in 2018 increase, decrease, or stay the same? Explain.
- Assume that Chris gets a fixed-rate loan from a lender when the expected inflation rate is 30%. If the actual inflation rate turns out to be 50% percent, who benefits from the unexpected inflation: Chris, the bank, neither, or both? Explain.