Homework #7: Chapter 9
Unemployment and It’s Natural Rate

Use the following information to answer the following questions.

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>population</td>
<td>223.6</td>
<td>226.5</td>
</tr>
<tr>
<td>adult population</td>
<td>168.2</td>
<td>169.5</td>
</tr>
<tr>
<td>number of unemployed</td>
<td>7.4</td>
<td>8.1</td>
</tr>
<tr>
<td>number of employed</td>
<td>105.2</td>
<td>104.2</td>
</tr>
</tbody>
</table>

1. What is the labor in 2001 and 2002?

2. What is the labor force participation rate in 2001 and 2002?

3. What is the unemployment rate in 2001 and 2002?

4. From 2001 to 2002, the adult population went up while the labor force went down. List some reasons why this might have happened?

5. If the natural rate of unemployment is 6.6%, how much is cyclical employment in 2001 and 2002? Is this country likely to be experiencing a recession in either of these years?

Multiple Choice Questions

6. Which of the following statements is true?
   a. Women tend to have similar unemployment rates as men.
   b. The labor force participation rate of men is rising.
   c. Blacks have a lower unemployment rate than whites.
   d. Most spells of unemployment are long-term but most unemployment observed at a given time is short-term.
   e. All of the above are true.
7. A minimum-wage law tends to
a. create more unemployment in high skill job markets than in low skill job markets.
b. create more unemployment in low skill job markets than in high skill job markets.
c. have no impact on unemployment as long as it is set above the competitive equilibrium wage.
d. help all teenagers because they receive a higher wage than they would otherwise.

8. A “reservation wage” is the
a. maximum wage the firm is willing to pay.
b. minimum wage that a worker is willing to accept.
c. tip necessary to get a waiter to reserve a table.
d. competitive equilibrium wage.

9. Which of the following government policies would fail to lower the unemployment rate?
a. reduce unemployment benefits
b. establish employment agencies
c. establish worker training programs
d. raise the minimum wage

10. Which of the following is an example of “moral hazard”?
a. At a low wage, a worker quits to find a better job.
b. At a low wage, a worker sleeps when the boss is not looking because the worker is not deeply concerned about being fired.
c. At a low wage, only poorly qualified workers ever apply for this job.
d. At a low wage, a worker cannot afford a healthy diet so she falls asleep at work due to a lack of energy.

11. Which of the following is an example of “adverse selection”?
a. At a low wage, a worker quits to find a better job.
b. At a low wage, a worker sleeps when the boss is not looking because the worker is not deeply concerned about being fired.
c. At a low wage, only poorly qualified workers ever apply for this job.
d. At a low wage, a worker cannot afford a healthy diet so she falls asleep at work due to a lack of energy.

12. Unions might increase efficiency in the case where they
a. raise the wage for insiders above the competitive equilibrium.
b. offset the market power of a large firm in a “company town”.
c. lower the wage of local outsiders.
d. threaten a strike but don’t actually follow through so there are no lost hours of work.

13. Which of the following statements about efficiency wage theory is true?
a. Firms do not have a choice about whether they pay efficiency wages or not because these wages are determined by law.
b. Paying the lowest possible wage is always the most efficient (profitable).
c. Paying above the competitive equilibrium wage creates moral hazard because it causes workers to shirk their responsibilities.
d. Paying above the competitive equilibrium wage may improve worker health, lower worker turnover, improve worker quality, and increase worker effort.