ECON 2630 – Practice Problems 4

1. According to the classical model, if there are too many elementary school teachers in the labor market,
    a. the government should institute a retraining program to give the unemployed teachers new job skills
    b. the wages for elementary teachers will fall, eventually causing the number of excess teachers to shrink
    c. the wage for elementary teachers will increase for those who are employed, but unemployment of teachers will remain high
    d. this situation provides an example of frictional unemployment, which often occurs in the long run

2. If the labor supply and demand curves cross at a wage of $20,
    a. a wage rate of $10 per hour would lead to an excess demand for labor
    b. a wage rate of $10 per hour would lead to an excess supply of labor
    c. The wage of $20 causes a high rate of cyclical unemployment
    d. employees are overpaid

3. According to the Classic Model, what is the relationship between household saving and taxes?
    a. taxes = income - consumption - household saving
    b. household saving = income + taxes - consumption
    c. taxes = income - consumption + household saving
    d. household saving = consumption + income - taxes
    e. taxes = household saving - income - consumption

4. According to the classical macroeconomic model, in the long run, if household saving is $2 trillion, net taxes is $2.5 trillion, and consumption spending is $5.5 trillion, then the disposable income should be
    a. $10 trillion
    b. $8 trillion
    c. $7.5 trillion
    d. $4.5 trillion

5. According to the classical macroeconomic model, in the long run, if household saving is $2 trillion, net taxes is $2.5 trillion, consumption spending is $5.5 trillion, and planned investment spending is $3 trillion, then the government has a

    a. surplus of $1 trillion
    b. surplus of $0.5 trillion
    c. deficit of $1 trillion
    d. deficit of $0.5 trillion

The following data ($trillions) are for the country called Pseudomonia. It has a closed economy, which means there is no trade between this country and any other country.

Total Real Output	$15
Consumption	$10.5
Government spending	$2.5
Households saving	$3

Assume that the economy of Pseudomonia is at its long run equilibrium. Calculate each of the following items:

a. planned investment spending
b. net taxes
c. disposable income
d. government budget balance (deficit or surplus)