

## 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.  $\text{taxes} = \text{income} - \text{consumption} - \text{household saving}$
  - b.  $\text{household saving} = \text{income} + \text{taxes} - \text{consumption}$
  - c.  $\text{taxes} = \text{income} - \text{consumption} + \text{household saving}$
  - d.  $\text{household saving} = \text{consumption} + \text{income} - \text{taxes}$
  - e.  $\text{taxes} = \text{household saving} - \text{income} - \text{consumption}$
  
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 Pseudomoniam. 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 Pseudomoniam is at its long run equilibrium. Calculate each of the following items:

- planned investment spending  
total output = total income = total spending, therefore,  
 $C + I^p + G = 15$ ; So,  $I^p = 15 - C - G = 15 - 10.5 - 2.5 = 2$
- net taxes  
 $15 = C + S + T$ . So,  $T = 15 - C - S = 15 - 10.5 - 3 = 1.5$
- disposable income  
 $Y^d = C + S = 10.5 + 3 = 13.5$
- government budget balance (deficit or surplus)  
Government budget =  $G - T = 2.5 - 1.5 = 1$  (deficit)