

Useful Macroeconomics

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Suggested Learning Activities after Chapter 6

New terms to Explain: *Bretton Woods, cost-push inflation, demand-pull inflation, dividends, Fed funds rate, fixed exchange rates, floating exchange rates, initial value, misery index, Monetarism, negative link, negative loop, output per worker, positive link, positive loop, price mark-up, profits, retained earnings, slope of a curve, stagflation, and unit labor cost.*

Discussion

1. Describe what you found most interesting about the 1970s in this chapter.
2. Compare the Keynesian and Monetarist approaches to conducting monetary policy.
3. Explain how wages can be considered both an income and a cost.
4. In your own words, explain what can be learned from the data patterns in **UM** Figure 6.6.
5. Explain the three-part hypothesis for wages in **UM** section 6.3.
6. Convert the employment rate equation into its growth rate version. Give a numerical example.
7. Explain how *unit labor cost* is calculated. Use a numerical example to illustrate your explanation.
8. Convert the *unit labor cost* equation into its growth rate version. Give a numerical example.
9. Explain why this statement is true: 'Inflation is a growth rate.'

Modeling

10. **UM** Figure 6.7 shows the Wage & Price sub-model receiving inputs from the Labor & Productivity sub-model, as well as the cause-and-effect relationships inside the WP sub-model. Give a simple, non-technical explanation of how the inputs from LP affect wages & prices inside WP.
11. Study this [tutorial](#). It illustrates more than the Wage & Price sub-model. It also shows a simplified version of the feedback process that connects WP with PS, and then connects PS with LP, and finally connects LP with WP. And it allows you to conduct simulation experiments.

Near the end of the tutorial, do the experiments.

Be sure to study all graph pages after each experiment.

With AD shock OFF, nominal AD is rising at a constant rate of 3.4 percent.

With AD shock ON, nominal AD rises faster after year 1.

With LF shock OFF, labor force is rising at a constant rate of 0.8 percent.

With LF shock ON, labor force rises faster after year 10.

RUN Experiment #1, with both AD and LF shocks OFF.

➔ How could inflation remain constant at 1.4 percent when prices are rising?
(do not clear the graph)

RUN Experiment #2, with AD shock ON and LF shock OFF.

➔ Explain step-by-step how the change in the nominal AD growth rate caused inflation to rise.
(do not clear the graph)

RUN Experiment #3, with both AD and LF shocks ON.

➔ Explain why the faster-growing labor force caused inflation to decrease.