

ECON252 – Macroeconomics-

Name	ID

Problem 1

Real salary = (nominal salary/ CPI) *100

The real salary of

Ahmed = $7200/83 \times 100$

= 8675

May = $12600/103 \times 100$

= 12233

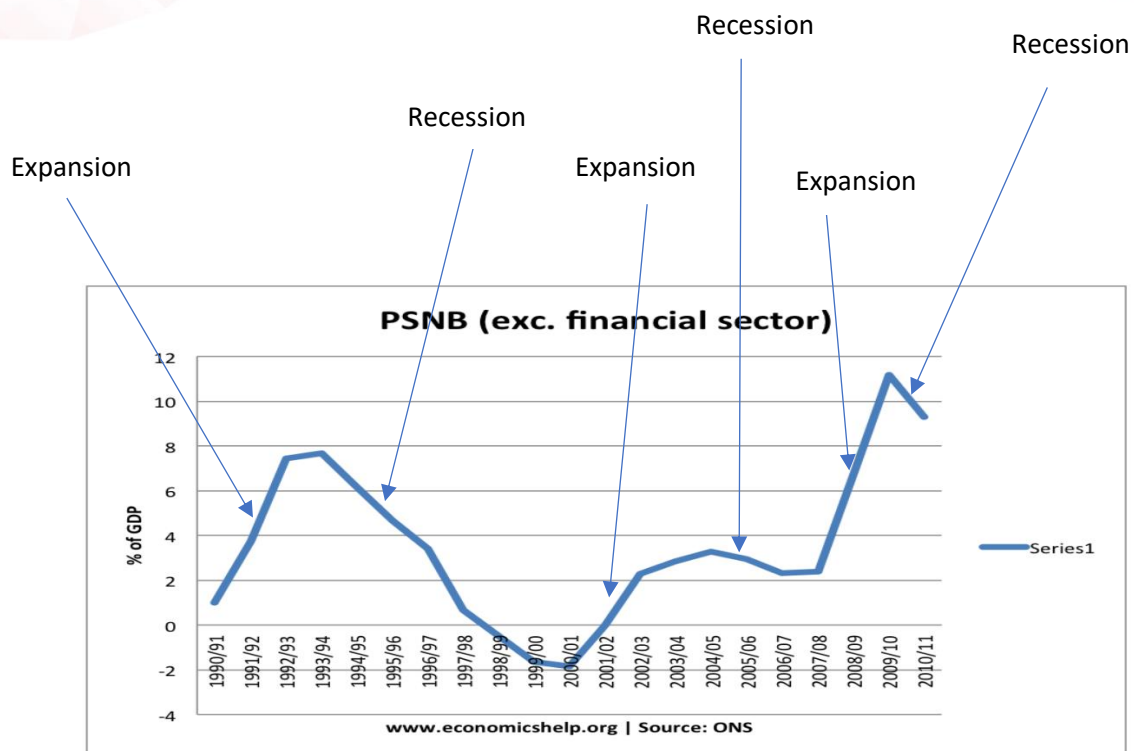
Abdullah = $16800/135 \times 100$

= 12444

The real salary classification from the highest to the lowest is

Abdullah, May, Ahmed

Problem 2



2. The macroeconomic indicators that characterize expansion include the increase in the Gross domestic product, the growth of per capita income, a decrease in the rate of unemployment and good performance of the equity markets. The expansion phase results into the increase in the national product as the level of production increases. An increase in the national income results into an increase in the income per head. When per capita income increases, the living standards of individuals is made better and the poverty levels decline. An expansion phase is an indicator that the level of investment has increased and thus industrial growth is taking place. Entrance of new industries in the market results into more job opportunities thus reducing the unemployment levels. The equity markets perform well as the rate of investments grows and people become more interested to buy shares and stock in the investment firms.

Recession is indicated by economical contraction. The gross domestic product decreases and thus the income per head also decreases. The rate of unemployment increases since most of the firms are shutting down or laying off some employees to reduce the costs incurred. The levels of investment decline and the demand for shares and stock reduces thus poor performance of the equity markets.

3. When the expansion period ends, the gross domestic product decreases gradually, the income per capita starts to reduce, the rate of unemployment increases and the equity markets start to perform poorly.

4. Inflation occurs when the prices of commodities increase while the income remains constant. When the prices rise, the purchasing power of money decreases. The consumers have to reduce the number of items in their consumption baskets to use the same amount of money that they used initially. Inflation makes the consumers worse off as it reduces the choices of consumption available to the consumer.

Problem 3

1. Unemployment rate = number of people who are unemployed/ labor force

$$\text{Number of unemployed people} = \text{labor force} - \text{employed}$$

$$= 1263000 - 1157000$$

$$= 106,000$$

$$\text{Unemployment rate} = 106,000/1263000 * 100\%$$

$$= 8.4\%$$

2. The number of people not in the labor force = working age – labor force

$$= 1478000 - 1263000$$

$$= 215000$$

$$\begin{aligned} 3. \text{ Employment population ratio} &= \text{employed/working age} \\ &= 1157000/1478000 * 100\% \\ &= 78.3\% \end{aligned}$$

$$\begin{aligned} 4. \text{ Labor force participation rate} &= \text{labor force / working age} * 100\% \\ &= 1263000/1478000*100\% \\ &= 85.5\% \end{aligned}$$

Problem 4

$$\begin{aligned} 1. \text{ CPI in 2015 (pencil)} &= \text{cost of pencil in 2015/cost of pencil in 2010} * 100\% \\ &= (6*14)/ (6*12) *100\% \\ &= 116.7 \end{aligned}$$

$$\begin{aligned} \text{CPI in 2015 (tablets)} &= \text{cost of tablet basket in 2015/cost of tablet basket in 2010} * 100\% \\ &= (10*12)/ (10*15) *100\% \\ &= 80 \end{aligned}$$

$$\begin{aligned} \text{CPI in 2015 (sunglasses)} &= \text{cost of sunglasses basket in 2015/cost of sunglasses basket in 2010} * 100\% \\ &= (12*150)/ (12*180) *100\% \\ &= 83.3 \end{aligned}$$

$$\begin{aligned} \text{CPI in 2016 (pencil)} &= \text{cost of pencil in 2016/cost of pencil in 2010} * 100\% \\ &= (6*14)/ (6*12) *100\% \\ &= 116.7 \end{aligned}$$

$$\begin{aligned} \text{CPI in 2016 (tablets)} &= \text{cost of tablet basket in 2016/cost of tablet basket in 2010} * 100\% \\ &= (10*12)/ (10*15) *100\% \\ &= 80 \end{aligned}$$

$$\begin{aligned} \text{CPI in 2016 (sunglasses)} &= \text{cost of sunglasses basket in 2016/cost of sunglasses basket in 2010} * 100\% \\ &= (12*130)/ (12*180) *100\% \\ &= 72.2 \end{aligned}$$

$$\begin{aligned} 2. \text{ Inflation rate in 2016 (pencil)} &= (116.7-116.7)/116.7 *100\% = 0\% \\ &\text{The price of pencils remained the same in year 2015 and 2016.} \end{aligned}$$

$$\begin{aligned} \text{Inflation rate in 2016 (tablets)} &= (80-80)/80*100\% = 0\% \\ &\text{The price of tablets remained the same in year 2015 and 2016} \end{aligned}$$

$$\text{Inflation rate in 2016 (sunglasses)} = (72.2-83.3)/72.2*100\% = -15.4\%$$

The price of sunglasses reduced from year 2015 to 2016