**Chapter 21**

**1.** Using the expenditure approach: C+I+G+(X-M) =

5,000 + 1,000 + 1,000 + (500-700) = 6,800.

Using the income approach:

Compensation of employees + Profit + depreciation =

5,300 + 900 + 600 = 6,800

Recall that depreciation has to be added in because it is taken out in the calculation of profit and we want to get back to “gross domestic product.”

**9.** (a) not counted—financial transaction (b) counted—investment spending

(c) not counted—financial transaction (d) not counted—financial transfer

(e) counted—consumption spending

(f) not counted—used goods (unless you are in the book-rental business, and declare your income to the government.

(g) not counted—transfer payment (h) counted—investment spending

(i) the pizza is counted—consumption (the cheese is part of the value of the final good)

(j) not counted—nonmarket activity (k) not counted—illegal goods

**Chapter 22:**

1. The conventional definition of a recession is two consecutive quarters of declining aggregate output. It is possible for the unemployment rate to remain relatively low even when the economy is entering into a recession. If the recession is mild, the unemployment rate may not rise to high levels. If the recession is severe or prolonged, the unemployment rate will likely rise due to an increase in the cyclical rate of unemployment.
2. This is structural unemployment, which can sometimes exist for long periods, especially when workers must learn new skills to find jobs. The social costs of this unemployment might be greater than the costs of retraining these workers, providing some justification for government assistance. In the present economy, rapid technological advancement can be the cause of some firms exiting a market due to inefficiency or lack of demand for their products. This would result in structural unemployment.

**4.** a. The labor force participation rate will likely increase.

b. The labor force participation rate will likely decrease.

c. The labor force participation rate will likely decrease.

d. The labor force participation rate will likely decrease.

**5.** Yes, inflation would still be a problem. There are other costs of inflation besides the redistribution of income that occurs when incomes are not indexed. One example is the waste of time and resources spent coping with inflation. See the section on “Administrative Costs and Inefficiencies” under the heading “Costs of Inflation.”

**15.** (a)Since the unemployment rate is 10.4 percent or .104, the employment rate has to be 89.6 percent or .896. The size of the labor force is calculated as the number of employed divided by the employment rate. The labor force = (121,166,640 / .896) = 135,230,625.

Another way to come up with the answer is to understand that the unemployment rate and the employment rate must equal 1. U+E = LF, thus U/LF +E/LF = 1. Since you are given U/LF = 10.4 and E is 121,166,640, you simply solve for LF.

Substituting: .104 + 121,166,640/LF = 1. Multiplying both sides by LF you get .104\*LF +121,166,640 = LF, or 121,166,640 = (LF−.104\*LF), or 121,166,640/.896 = LF = 135,230,625.

(b) The number of people unemployed is calculated as the labor force minus the number of employed. The number of people unemployed = 135,230,625 – 121,166,640 = 14,063,985.

(c) The working age population is calculated as the labor force divided by the labor force participation rate. The working-age population = (135,230,625 / .725) = 186,525,000.