

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (15 points) What is wrong with the following argument? “When inflation goes up, it causes prices to rise faster and people are poorer because they cannot afford to buy as much.”

- 2) (20 points) Suppose people expected 12% inflation. At the beginning of the year, the price level was 200 and at the end of the year it was 220. What is the inflation rate? Show all work. Who is hurt by this inflation? Explain your logic.

- 3) (10 points each) For each event determine what happens to the unemployment rate and the labor force participation rate. Explain your logic. If the unemployment rate is affected, then state which category of unemployed is affected. If you make any assumptions, state them.
 - A) John quits his job because he dislikes his boss.
 - B) A clerk at Borders loses her job because they went out of business.
 - C) Janet graduates from college without a job.
 - D) A former steelworker is unemployed for so long that he quits looking for a job.
 - E) Kathy is a lifeguard at a water park near here. The summer comes to an end.

- 4) (15 points) Explain how fully anticipated inflation can hurt consumers.