

Corrected Version

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment.

1) The article below came from CNN.com on 2004/4/1. (I only copied part of the article.) Use it to answer this question.

A) (10 points) The article says the jobs growth should be more robust given the growth in the economy. What is the economic reason for this?

B) (15 points) If jobs grew by 123,000 jobs with an initial 130 million jobs and an unemployment rate of 5.6%, then what was the unemployment rate after the jobs were added? Show all work and briefly explain how you did the calculations.

C) (10 points) Using your results from Part B, **what should have been** the percent change in GDP? Show all work and briefly explain how you did the calculations.

2) (15 points) Explain $Y = AF(K,N)$

3) (25 points each) Illustrate the following both events on both the production function as a function of labor, and on the supply and demand for labor. Explain why the line(s) moved as drawn.

A) There is an increase in capital.

B) The labor-force participation rate increases.

From CNN.com 2004/4/1

Here we go again

Economists see signs of a job rebound -- but once again, it would seem we'll have to wait for it.

April 1, 2004: 4:53 PM EST

By Mark Gongloff, CNN/Money senior writer

NEW YORK (CNN/Money) - In the movie Groundhog Day, Bill Murray played Phil Connors, a TV weatherman stuck in a time loop, repeating the same day over and over again. Many economists probably feel a little bit like grizzled old Phil right now when they hunker down to forecast U.S. government stats on the labor market.

Since at least November, there have been signs of a long-hoped-for jump in jobs, leading economists to make fairly rosy forecasts. And since November, those forecasts have been wrong, and job growth has disappointed.

Will March's jobs data, due on Friday, finally be the moment when the loop is broken? Maybe not -- though things could look a sight better than in February, when just 21,000 new jobs were added to a labor market of more than 130 million.

Economists, on average, think unemployment held steady in March at 5.6 percent and that

non-farm payrolls grew by about 123,000 jobs, according to Briefing.com.

While such job growth would be the best since December 2000, it would barely keep up with the average monthly growth in the labor force, and would certainly be weaker than the health of the overall economy would seem to warrant. Despite nine (going on ten) straight quarters of economic growth, non-farm payrolls are still 2.3 million jobs below their peak in March 2001.

While some economists think the Labor Department could be undercounting payroll growth, few believe the job market has been as robust as it should be in a typical recovery. A corporate obsession with cost-cutting often gets the blame, with companies using technology to squeeze more work out of fewer workers and moving some jobs overseas.

But just like Phil Connors, economists have slowly adjusted their behavior to account for the new reality. Phil shed his self-centeredness and bitterness; some economists have been ditching or re-tooling their forecasting models.

"We have somewhat limited confidence in our forecast because the traditional models we have used to forecast hiring have all broken down," Lehman Brothers economists -- who expect 95,000 new jobs in March -- told clients in a research note last week.

The economist who's been most right in recent months is Richard Yamarone at Argus Research, who's taken a somewhat unique approach to forecasting, listening to hundreds of corporate conference calls and CEO speeches, none of which gave him warm, fuzzy feelings about the immediate future of the labor market.

There weren't many conference calls in March, and Yamarone says he's hearing corporate decision-makers talking about creating jobs -- but not right away.

"All of these corporate chieftains are saying new hiring is in the cards, around the corner, down the road -- but that doesn't mean March," Yamarone said Thursday.

Yamarone expects just 40,000 new jobs in March, and some other forecasters have moved their numbers down into his neighborhood, including the Bank of Tokyo-Mitsubishi, MCM MoneyWatch, International Insider and Banc One Investment Advisors.

PROGNOSTICATION BREAKDOWN

Economists have had trouble forecasting monthly changes in non-farm payrolls lately; more often than not, they've been overly optimistic.

Date	Consensus Forecast	Reported
Dec 2002:	+20,000*	-209,000
Jan 2003:	+70,000	+94,000
Feb 2003:	+8,000	-159,000
Mar 2003:	-29,000	-110,000
Apr 2003:	-53,000	-20,000
May 2003:	-39,000	-28,000
Jun 2003:	0	-14,000
Jul 2003:	+18,000	-45,000
Aug 2003:	+12,000	-25,000
Sep 2003:	-30,000	+67,000
Oct 2003:	+58,000	+88,000
Nov 2003:	+135,000	+83,000
Dec 2003:	+125,000	+8,000
Jan 2004:	+150,000	+97,000
Feb 2004:	+125,000	+21,000**
Totals:	+570,000	-152,000

* Average forecast, reported by Briefing.com; all other forecasts are average forecasts from Reuters polls
** Preliminary