

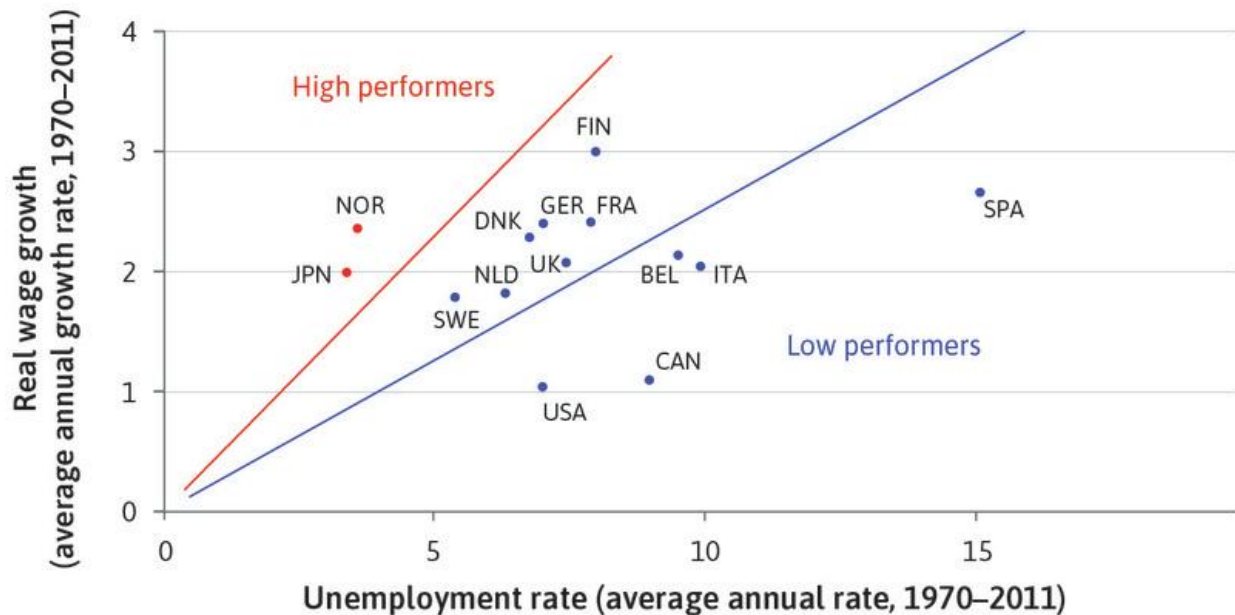
ECON 2002.01 PROBLEM SET 10

Unit 16

Hui-Jun Chen

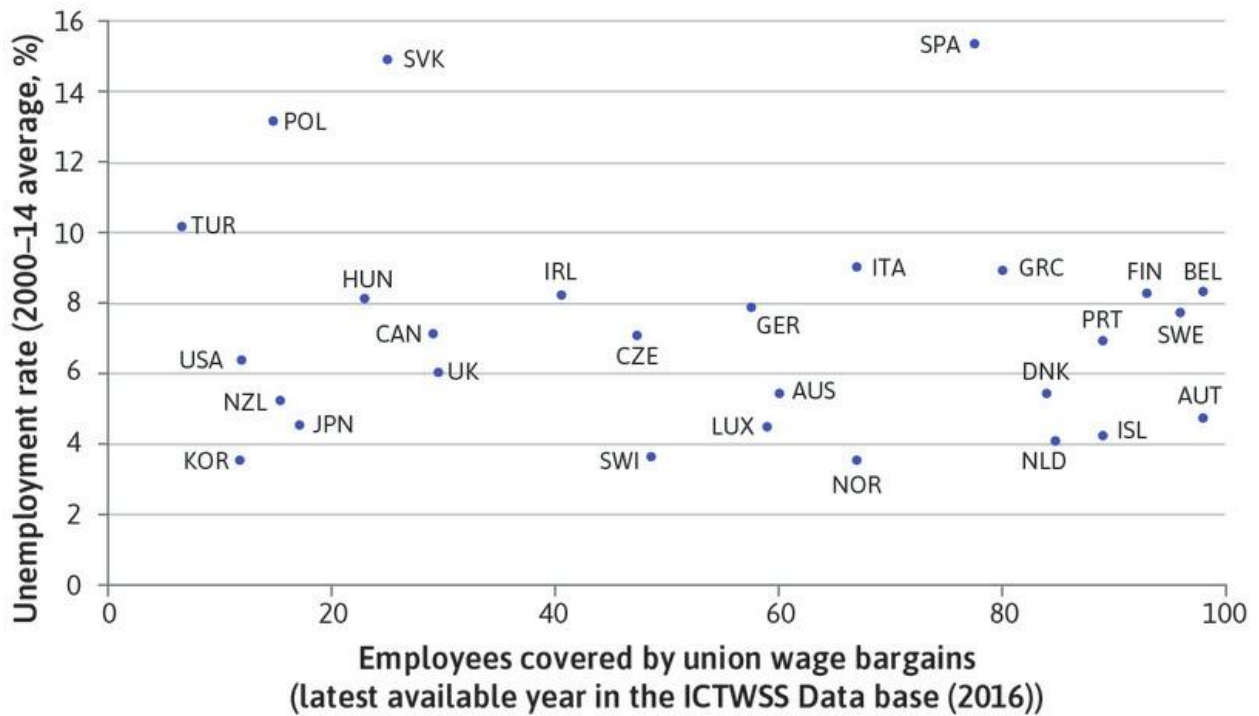
- ① (OUP-U16-Q4) In the short run, successive additions to capital produce smaller and smaller increases in output. Which of the following statement(s) could explain why GDP nevertheless continues to rise In the long run? _____
- (A) Workers work harder.
 - (B) Government policy encourages economic growth.
 - (C) Economies benefit from economies of scale.
 - (D) New capital equipment incorporates the latest technological developments.
- ② (OUP-U16-Q8) The relationship between the unemployment rate and the job vacancy rate (each expressed as a fraction of the labour force) is known as: _____
- (A) The Phillips curve.
 - (B) The labour demand curve.
 - (C) The wage-setting curve.
 - (D) The Beveridge curve.
- ③ (OUP-U16-Q11) The profit-maximising mark-up declines as the number of firms increases. This is because: _____
- (A) The greater the number of firms, the more market power they each have.
 - (B) Too many firms means diseconomies of scale.
 - (C) The lower the individual mark-up, the more firms can share in the profits.
 - (D) The larger the number of firms, the more competitive the system is likely to be.

- ④ (OUP-U16-Q14) The widespread introduction of new technology into an economy takes time. The length of time between first appearance and general acceptance is known as: _____
- (A) The innovation lag.
 - (B) The time gap.
 - (C) The knowledge lag.
 - (D) The diffusion gap.
- ⑤ (OUP-U16-Q16) As a result of the diffusion of new technology, in the long run we would normally expect: _____
- (A) The price-setting curve to shift downwards.
 - (B) The price-setting curve to slope downward more steeply.
 - (C) An increase in unemployment.
 - (D) The price-setting curve to shift upwards.
- ⑥ (OUP-U16-Q20) The figure shows long-run unemployment and real wage growth across the OECD. The rays drawn from the origin are described as 'indifference curves'. This is because:



- (A) They show that people are indifferent to levels of unemployment.
- (B) They show a trade-off between unemployment and real wage growth.
- (C) They show that real wage growth and low unemployment go together.
- (D) Each ray shows the combinations of unemployment and real wage growth that correspond to the same 'utility'.

7 (OUP-U16-Q22) Looking at the figure shown, if it were the case that countries with strong trade unions also experienced high unemployment rates, we would expect the data points to be:

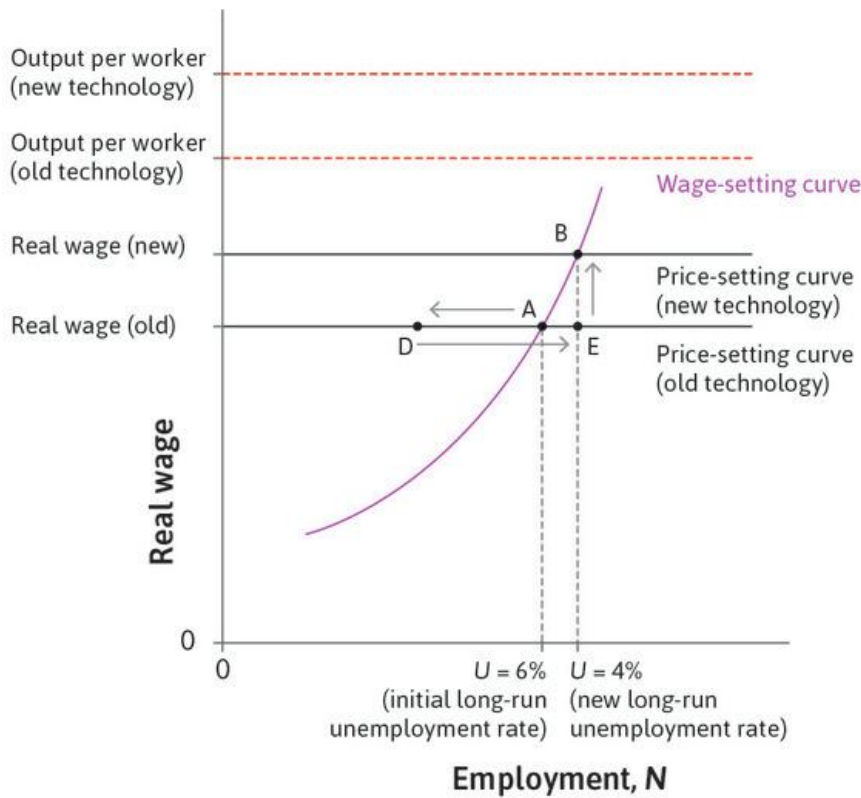


- (A) Clustered around a horizontal line.
- (B) Clustered around a downward-sloping line.
- (C) Clustered around an upward-sloping line.
- (D) More randomly dispersed than they are.

8 (OUP-U16-Q9) The Beveridge curve will shift downward (toward the origin) if:

- (A) Vacancies are increasingly concentrated in given sector of the economy.
- (B) Vacancies are increasingly concentrated in a geographical region.
- (C) Information about job vacancies improves.
- (D) Unemployment benefits become more generous.

9 (ECO-U16-Q7) Figure 16.9b depicts the long-run adjustment process in the labour market after technological progress. Based on this information, which of the following statements is correct?



New technology shifts up output per worker and the price-setting curve

- A→D: Introduction of a new technology leads to a rise in unemployment
- D→E: High profits encourage new firms to enter
- E→B: Lower unemployment leads to rising real wages
- B: The new long-run rate of unemployment is 4%

- (A) The new technology does not cause any increase in unemployment, either in the short run or in the long run.
- (B) At D firms increase investment, and hence employment, due to the large gap between the real wage paid and the workers' wage-setting curve.
- (C) Lower unemployment at E implies a higher wage required to induce workers to exert high effort, resulting in the higher real wage at B.
- (D) The adjustment from equilibrium A to the new equilibrium at B is immediate.

⑩ (OUP-U16-Q6) Last year, an economy had 1m registered unemployed and a labour force of 20m. Official statistics forecast a level of unemployment of 0.8m by the year's end while the size of the labour force remains unchanged. If this happens then the unemployment rate will have: _____

- (A) Risen by 0.2m.
- (B) Fallen from 5 per cent to 4 per cent.
- (C) Fallen by 0.2m.
- (D) Fallen by 0.2 per cent.