N11114 Macroeconomics for Business
Seminar 2

Week 7 (w/c 6th November 2017)

Please prepare written answers before attending the seminar.

1. The diagram below shows two short-run Phillips curves (PC_0 and PC_1). PC_0 corresponds to a situation in which workers expect no inflation. Suppose the economy begins in long-run equilibrium with zero inflation and workers have adaptive expectations. The authorities adopt a policy of constant monetary growth because they wish to reduce unemployment below its existing level.

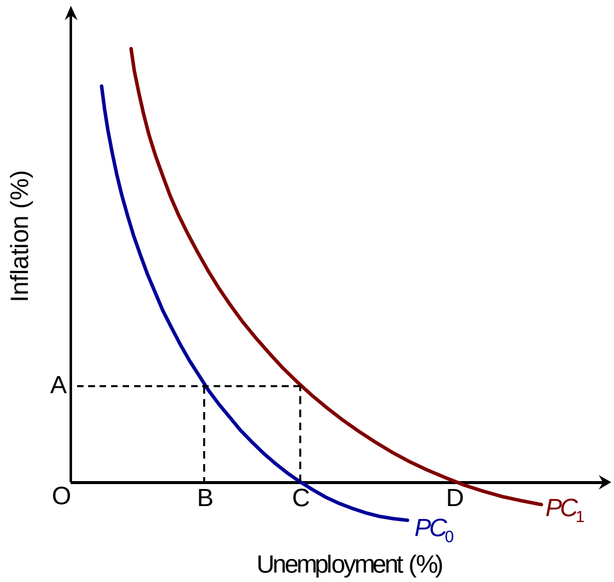
(a) What is the natural rate of unemployment?

(b) What is the *expected* rate of inflation if the Phillips curve is PC_1?

(c) Identify the short-run effect on unemployment and inflation of a policy of constant monetary growth.

(d) Explain why this new position for the economy is untenable in the long run.

(e) Towards what long-run equilibrium level of unemployment will the economy tend?



2. What is the impact of an expansionary monetary policy on national income? Explain using the AS-AD framework.

3. What is disequilibrium unemployment and what causes it? Use diagrams in your answer.