

Chapter 4

Homework Assignment

1. In 1999, the fictitious country, "Alpha" had an unemployment rate of 3% and an inflation rate of 8%. How does the economic situation of Alpha in 1999 compare with the economic situation in the United States in 1999? How does it compare to the economic situation of the United States over the past 100 years? Would you say Alpha is in a recession? Why?
2. To what extent do the aggregate unemployment and inflation statistics given above indicate the well-being of an individual citizen in Alpha?
3. Each of the following statements might well have appeared in a newspaper. Label each statement as positive or normative. Note the key word or words that lead to your conclusion.
 - Personal income fell in November to a seasonally adjusted rate of \$4.879 trillion.
 - Deregulation of the airline industry has failed.
 - Limitations on the number of terms a President may serve are a good idea.
 - Speaker Gingrich asserted that there should be a balanced budget amendment

Key

1. Alpha has a higher rate of inflation and a lower unemployment rate in 1999. The inflation rate is higher than it has been in the U.S. through much of the last century while the unemployment rate is lower than the U.S. rate most of the years since 1900. It is probably not in a recession because the unemployment rate is so low.
2. Aggregate statistics do not indicate the specific situation of each individual. Aggregation does not allow for investigation of details, for example the distribution of income or the duration of unemployment.
3. P (whether or not it "fell" can be tested)
N (it is not clear what "failed" means)
N (what "good" means is unclear)
P (whether or not he asserted this can be tested)