Text Questions
1. a. not in the labor force
   b. unemployed – structure
   c. unemployed – frictional
   d. employed
   e. unemployed – cyclical
   f. employed
2. Demand-pull inflation occurs when buyers’ demands to purchase goods and services outstrip sellers’ abilities to supply them, thereby forcing up prices. Cost-push inflation occurs when increases in sellers’ costs are wholly or partially passed on to buyers. Both types of inflation can occur simultaneously. Inflation tends to spiral as higher prices lead workers to seek wage increases. If businesses pass on the wage increases in the form of higher prices, then workers ask for another wage increase and the cycle repeats.

3. Year | Market Basket Dollar Outlay | Price Index
1  | $170   | 85  
2  | $180   | 90  
3  | $200   | 100 |
4  | $224   | 112 |
5  | $250   | 125 |
6  | $280   | 140 |

4. a. Winner – Her real rate of interest is less than zero (-2%).
   b. Loser – His real rate of return is less than zero (-1.1%).
   c. Loser – The real rate of return is less than zero (-0.25%).
   d. Winner -- The value of the house increase faster than the rate of inflation.

Problems
1. a. \( Q = 10000 \) \((C+I+G+X-M)=5500+2500+1000-(500)\)
   b. \( (10000-8000)/8000 = 1.25 \) (deflator)
then \( 5500/1.25 = 4400 \)

2. | Year t   | Year t+1 |
---|----------|----------|
Nominal Domestic Product | 14,100   | 16,180   |
Real Domestic Product    | 13,600   | 14,190   |
Domestic Product Deflator| 103.6    | 114      |
Inflation rate = \((114-103.6)/103.6 = 9.9\%\)