

## Tutorial 11: The Labour Market in the Macroeconomy

- 1) Graphically illustrate and describe the principle of sticky wages. What are some causes of inflexible or sticky wages?
- 2) Define the Phillips Curve. Graphically illustrate the relationship between the inflation rate and the unemployment rate.
- 3) For each of the following indicate if there would be a positive relationship, a negative relationship, or no systematic relationship between the unemployment and inflation rates.
  - (a) The government increases government spending.
  - (b) At the same time the government is increasing the money supply the prices of imports are increasing.
  - (c) The price of energy is falling.
- 4) Draw a graph of a long-run Phillips curve. What does this graph imply about the long-run trade-off between inflation and unemployment? What does this graph imply about the effectiveness of monetary and fiscal policy in the long run?
- 5) Discuss the Phillips curve if
  - (a) aggregate demand changes from year to year but aggregate supply is stable
  - (b) aggregate supply changes from year to year but aggregate demand is stable
  - (c) aggregate demand and aggregate supply change from year to year