1. A useful publication for obtaining macroeconomic data for a large number of countries is the International Financial Statistics published by the International Monetary Fund (IMF). This publication is available in UM libraries and is available online through the UM library http://www.lib.umich.edu/ and at http://www.imfstatistics.org/imf/

   a) Using a recent edition of this publication, select a country and locate and report the following data for that country for the most recent year available: Private Consumption, Investment (defined as "gross fixed capital formation", or the change in the capital stock, as well as "increase/decrease in stocks" which refers to inventories, not to stocks in the sense of the stock market), Government Spending (defined as government consumption), Net Exports (consisting of exports and imports of goods and services), and GDP. Verify that total expenditure is equal to GDP as reported in this publication. (If it doesn't add up, not to worry, for some countries the data are not defined consistently.)

   b) Using data for the consumer price index, compute the inflation rate for the most recent year for the selected country. Explain (in words) what the reported value of the consumer price index (not the inflation rate) for the most recent year means.

   c) Compute the price index for GDP (the GDP deflator) for the most recent year available. Compare this index to the CPI. Explain why they are similar (if they are) or why they are different (if they are).

2. Using the Classical model, show and explain the effect on the equilibrium levels of output, nominal wages, and real wages of immigration (for simplicity, you may assume there is no difference in the skills of immigrants and native workers).

3. Recently there has been substantial debate in the U.S. regarding the raising of the minimum wage. In the Classical model, starting from an initial equilibrium, show the effect of instituting a minimum wage that exceeds the initial equilibrium wage. What will be the effect on employment, unemployment, and output? Explain.

4. Economists disagree on the reasons for the very high unemployment that has persisted in some European countries for many years. Some economists argue that what we observe is very high frictional unemployment due to people in the process of changing jobs or postponing finding a new job due to generous government assistance, for example. Other economists argue that labor markets in some countries in Europe do not "clear" (i.e., supply does not equal demand at the prevailing wage).

   a) Show both explanations graphically (either on the same graph or separately).

   b) Which of these explanations is consistent with a Classical or long-run view of the economy? Explain.

   c) What can explain the difference between the high equilibrium rates of unemployment in Europe and the relatively lower unemployment rates (until recently) in the US?