

Chapter 1 A Tour of the World

1. True/False Uncertain

- a. False
- b. True
- c. False
- d. False
- e. False
- f. True
- g. Uncertain or false
- h. False

2. Macroeconomic Policy in Europe

- a. More flexible labour market institutions may lead to lower unemployment, but there are questions about how precisely to restructure these institutions. The United Kingdom has restructured its labour market institutions to resemble more closely U.S. institutions and now has a lower unemployment rate than before the restructuring. On the other hand, Denmark and the Netherlands have relatively low unemployment rates while maintaining relatively generous social insurance programs for workers.
- b. Although the Euro will remove obstacles to free trade between European countries, each country will be forced to give up its own monetary policy.

3. Chinese Economic Growth

- a. With these assumptions, China's output in 2013 = 1.105×8.2 trillion; U.S. output in 2013 would be $1.026 \times 15.6 = 16.000$. If this continues, China's output exceeds U.S. output in 2021.
- b. It seems unlikely. We would have to make an assumption about population growth to be able to answer this question. Suppose neither country grows in population at all. Then we would assume U.S. output per person (Figure 1-1) in 2013 is $1.026 \times 49,400 = 50,684.4$ and China's output per person (Figure 1-7) in 2013 is $1.105 \times 6100 =$

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6740.5 . When China catches up with the United States in total output, the year 2021, the residents of China are far behind the resident of the United States in standard of living.

- c. China has increased the amount of capital per person. This is possible in the United States. China has imported a lot of technology from the United States and other countries. This is more difficult to do in the United States since the number of technologies available for the United States to import that they do not already have is fewer.
- d. China does provide a model for other developing countries

4. Deficit Reduction

The answers to this question will depend on the most recent data in Fiscal Reference Tables.

5. High Unemployment

The answers to this question will depend on the most recent data in the *Economic Report of the President* Fiscal Reference Tables