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Macroeconomics

Professor Gordon

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Assignment 9.10

1. What is the main point of the two videos in this week's lesson? How does it relate to unemployment? **The videos speak on unemployment and the truth about the economy. It is difficult to measure and even more difficult to know what to do about it. It relates to unemployment because many wages have barely increased. Many people are at competition with one another in order to fight for scraps and just overall retain some sort of income. The videos also distinguish the difference between the natural rate of unemployment and a cyclical fluctuation from that level. In addition, the video explains how inflation is measured and why it is a problem.**

2. How does structural unemployment (due to a permanent change in the economy, such as the effect of Amazon on retail stores) differ from cyclical unemployment? **Structural unemployment is unemployment resulting from industrial reorganization because of technological change, rather than fluctuations in supply or demand. Structural unemployment is caused by a mismatch between skills that workers in the economy can offer and the skills demanded of workers by employers. On the other hand, cyclical unemployment is a type of unemployment which is related to the cyclical trends in the industry or the business routine. Cyclical unemployment is related to the macroeconomics situation in the economy. It would increase during a time of recession while decrease when the economy begins to recover. For example, an automobile employee gets fired during a recession to cut labor labor costs and because of this fact people are buying fewer vehicles so that the manufacturer won't need as many workers to meet the demand. Whether the cyclical unemployment is high or low it is only temporary.**

3. Why do you think the economy keeps finding new jobs for people who lose jobs to new technology (e.g., farms, telephone, autos, internet)? Is this historical fact going to change in the future? **Most people's wages have barely increased since 1980. Most of the gain have gone to the super rich. The super-rich and their political authority have the power to lower tax rates. Most of the income are from capital gains. Public services are being cut due to huge budget deficits. The middle class are divided to the point that many people are competing for the scraps that are left behind. Union versus non-union, public employees versus private and natives versus the immigrants. The vast middle class no longer have the purchasing power to keep the economy growing again due to continued high unemployment and anemic recovery.**

4. What is inflation? How does it affect the economy? **Inflation is a general rise in the price level in an economy over a period of time resulting in a sustained drop in the purchasing power of**

money. Inflation can happen when prices rise due to increase in production costs such as raw materials and wages. A surge demand for products and services can cause inflation as consumers are willing to purchase more for the item or product and that's how it generally speaking affects the economy. The only way to have a strong economy is with a strong middle class. The most popular indicator of inflation is the consumer price index which measures the percentage change in the price of a basket of goods and services consumed by households. Inflation is classified into three types; demand-pull inflation, cost push inflation and built-in inflation however the most commonly used are the consumer price index (CPI) which I mentioned previously. Overall, one reason for ambiguity and adjusting inflation is because it is difficult to account for improvement in the quality of goods and services, most people haven't enjoyed any economic gains and CPI hasn't increased.