

Discussion of Learning activity 7

True/False answers

1. The unemployed include those people who are not willing to work.

1. True
2. False

However, the expanded definition of unemployment includes those people who have been discouraged and are no longer actively seeking employment.

2. There will always be some fictional unemployment, and this type of unemployment is not regarded as a serious problem.

1. True
2. False

3. Cyclical unemployment occurs when there is a recession resulting from a temporary lack of sufficient aggregate demand in the economy.

1. True
2. False

4. Structural unemployment is a serious problem since it cannot be remedied by simply increasing the aggregate demand for goods and services.

1. True
2. False

5. When measuring economic growth, changes in prices and in the population should be taken into account.

1. True
2. False

6. One of the problems associated with GDP as a measure of economic activity is that not all goods and services are sold in markets, which makes it difficult to value them in monetary terms.

1. True
2. False

7. The expansion phase of the business cycle ends at the peak of the cycle.

- 1. True
- 2. False

8. The expansion phase of the business cycle (upswing) always lasts exactly as long as the recession phase (downswing).

- 1. True
- 2. False

There are no rules that can be applied here. All economic activity depends on various factors that work together and it is also very difficult to predict when the economy will move into different phases.

9. Sustained economic growth requires a sustained expansion of both aggregate supply and aggregate demand.

- 1. True
- 2. False

10. An increase in the quantity and/or quality of the factors of production is a necessary condition for economic growth, but not sufficient to ensure economic growth.

- 1. True
- 2. False

11. The wages earned by a citizen of Lesotho working at a South African gold mine form part of the South African GDP.

- 1. True
- 2. False

12. To measure real economic growth, GDP at current prices has to be transformed into GDP at constant prices.

- 1. True
- 2. False

13. During inflationary periods, the growth in real GDP is always higher than the growth in nominal GDP.

- 1. True
- 2. False

14. A once-off increase in prices cannot be classified as inflation. Inflation is a continuous process of increasing prices.
1. True
 2. False
15. The prices used to calculate the core inflation rate exclude value-added tax (VAT).
1. True
 2. False
16. The consumer price index measures the cost of living, while the production price index measures the cost of production.
1. True
 2. False
17. The PPI includes the prices of capital goods.
1. True
 2. False
18. Consumers are generally more interested in the rate of change in the implicit GDP deflator than in the rate of change in the CPI.
1. True
 2. False
19. The objective of price stability means that the inflation rate should be kept as low as possible.
1. True
 2. False
20. The consumer price index (CPI) and the inflation rate are the same thing.
1. True
 2. False

Review answers

1. Economic growth in South Africa must lead to an **(increase)** in employment opportunities.
2. **(Classical)** unemployment exists when the wage that is paid to labour is higher than the equilibrium wage.

3. A person is classified as unemployed if the person is between the ages of **15** and **65**, is without paid work, is **available** to work and is actively searching for **paid work**.
4. The **(consumer price index)** is an index of the prices of a representative basket of consumer goods and services.
5. Inflation is a **sustained** and **appreciable** increase in the **general** price level.
6. Consider the population of Utopia. In 2014, the country had a total population of 30 million, 10 million of which were older than 64 and younger than 16 (the minimum working age) while 9 million, mostly housewives and students, did not want to work. A total of 8 million of the remainder of the population between 16 and 64 who wanted to work were employed while the rest remained unemployed. Based on this information answer the following questions:

- 6.1 What is the size of the labour force or economically active population?
- 6.2 What is the labour force participation rate?
- 6.3 How many people are unemployed?
- 6.4 What is the unemployment rate?

1.1 $30\text{m} - 10\text{m} - 9\text{m} = 11\text{m}$

1.2 $\text{LFP rate} = (\text{labour force}/\text{population of working age}) \times 100$
 $= (11\text{m}/20\text{m}) \times 100$
 $= 55\%.$

1.3 $30\text{m} - 10\text{m} - 9\text{m} - 8\text{m} = 3\text{m}$

1.4 $(3\text{m}/11\text{m}) \times 100 = 27,3\%.$