Economics 314 Spring 2020
Daily Problem #23 March 11

Suppose that you manage a firm and are making price/wage decisions in an economy in which there is ongoing inflation rate of 4%, which you expect to continue for the next few years.

1. Suppose that the labor market is very tight (low unemployment) so that you think it will be difficult to hire. If you are searching for new workers, would you expect to be able to hire if you raised your wage offer relative to this year by 4%? How would this be different if the labor market was very slack (high unemployment) making it easy to hire.

2. Suppose that the demand for goods is very high (the demand for output is high relative to capacity). If you are making pricing decisions for your firm, how much would you raise prices relative to this year's (again, assuming expected, ongoing inflation of 4%)? How would this be different your firm was struggling to sell the output it can produce?