Economics 314 Spring 2019

Daily Problem #24 March 14

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, how would your wage offer (for next year) compare to the wage you are paying this year? 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? How would this be different your firm was struggling to sell the output it can produce?