

3. Assume that in the country of Zeta, the civilian noninstitutional population aged 16 and over is 1,000,000. The labor force participation rate is 70%, the unemployment rate is 9%, and the natural rate of unemployment is 5%.
- (a) Calculate the number of people in Zeta that are unemployed. Show your work.
- (b) Is the economy of Zeta currently experiencing a recessionary gap, an inflationary gap, or no output gap? Explain.
- (c) Consumer goods and capital goods are produced in the country of Zeta. Draw a correctly labeled graph of the production possibilities curve for Zeta. Indicate a point, labeled A, that represents the current state of Zeta's economy.
- (d) If some individuals who are counted as unemployed in Zeta stop looking for work, what will happen to each of the following?
- (i) The labor force participation rate. Explain.
 - (ii) The unemployment rate

Begin your response to this question at the top of a new page in the separate Free Response booklet and fill in the appropriate circle at the top of each page to indicate the question number.

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END OF EXAM