

## SHUVILLE EXERCISE

### Learning Outcome

At the end of this exercise you will be able to understand that economic decisions made by governments have consequences that go beyond the economic problem being addressed.

You are the president of Shuville, an island nation with a population of 60. All residents of Shuville are between the ages of 20-40. The only employer on the island is Lace-it Co. Ltd., who have a factory there that attaches the plastic ends on shoe laces. All goods and services on the island are imported. 50 of the residents are employed at the Lace-it factory, making \$20,000 a year. The other 10 residents are unemployed. It costs \$15,000 for the average person to live on the island. As the president of Shuville, you must choose between 4 options to deal with the unemployment situation.

1. Do nothing and hope that eventually the unemployed will leave the island.
2. Tax the employed \$4,000 each and use the money to start a job creation program for the unemployed.
3. Tax the employed \$3,000 each to provide social assistance for the unemployed.
4. Tax the employed \$5,000 each to offer incentives for Nike to locate a shoe factory on the island. This factory would employ 5 people making \$30,000 each and 15 people making \$21,000 each. You anticipate that Lace-it will increase their wages to \$21,000 to remain competitive and the increased employment will attract new residents to Shuville. Because of the increased economic activity the cost of living will increase to \$16,000.

Discuss the options within your group and decide which one you will choose.

## Unemployment

**Learning Outcome:** At the end of this exercise you will be able to calculate and interpret: unemployment rates, participation rates, involuntary part-time rates, and employment-to-population ratio.

The island nation of Shuville has a population of 100. All residents of the Shuville are between the ages of 20 and 40. The only employer on the island is Lace-It Co. Ltd., which has a factory there that attaches the plastic ends on shoe laces. 90 of the island's residents are employed at the Lace-It factory, the other 10 do not have jobs but are constantly applying at the factory for a job.

Calculate the unemployment rate, participation rate, involuntary part-time rate, and employment-to-population ratio for each of the following scenarios. (Each scenario is independent of the others.)

1. The current situation.
2. A social assistance program is initiated that pays the unemployed and does not requires that they be looking for work – the 10 unemployed stop looking for work.
3. Lace-It converts 5 jobs to part-time, hiring an additional 5 workers to split the jobs. All of the part-time workers would rather be working full time.

Scenario	Unemployment Rate	Participation Rate	Involuntary Part-time Rate	Employment to Population Ratio
1				
2				
3				

## Types of Unemployment Exercise

**Learning Outcome:** At the end of this exercise you will be able to identify situations of frictional, structural, seasonal and cyclical unemployment.

For each of the following situations, indicate if Luke is:

- in the labour force
  - if unemployed is it frictional, structural, seasonal or cyclical?
1. Luke attends takes political science at UWO. He doesn't work in order to devote all his time to his studies.
  2. Luke graduates and begins looking for a job to repay the \$40,000 in student loans that he has accumulated.
  3. Luke can't find a full time job so he works part-time at a video store.
  4. The video store closes and Luke loses his job.
  5. Luke takes a job in a machine shop.
  6. Luke is laid off from the machine shop due to a slowdown in the auto industry.
  7. Luke takes a job with a landscaping company.
  8. Luke is laid off at the end of the fall.
  9. Luke gets a job at the CAMI assembly plant in Ingersoll.
  10. CAMI relocates it plant to Mexico and Luke is laid off.
  11. After 4 months looking for a job, Luke gives up.
  12. Luke marries a rich woman and works part-time as a tennis instructor.

## Foreign Exchange Rates

**Learning Outcome:** At the end of this exercise you will be able to calculate exchange rates.

Calculate the following:

1. the U.S. dollar price of an item priced at \$520 in Canadian currency when the exchange rate is  $\text{CDN}\$1.00 = \text{US}\$0.81$ .
2. the Canadian dollar price of an item priced at \$24,000 in U.S. currency when the exchange rate is  $\text{US}\$1.00 = \text{CDN}\$1.22$
3. the U.S. dollar price of an item priced at \$3 in Canadian currency when the exchange rate is  $\text{US}\$1.00 = \text{CDN}\$1.25$
4. the Canadian dollar price of an item priced at \$82 in U.S. currency when the exchange rate is  $\text{CDN}\$1.00 = \text{US}\$0.80$ .

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Shifts in the Aggregate Demand Curve

Reference Ch. 24

**Learning Outcome:** At the end of this exercise you will be able to predict shifts in the AD curve.

1. Stats Canada announces that the CPI increased for the 6<sup>th</sup> month in a row and leading economists predict that this trend will continue for another year.
2. The federal government's budget announces increases in personal and corporate income tax rates.
3. With increased hostilities in the Middle East and Pakistan, the government pledges to bolster its activities in NATO by replacing its outdated helicopters.
4. The Bank of Canada increases the overnight lending rate by 1/2%, which is immediately followed by a similar increase in the chartered banks' prime rates.
5. The exchange rate continues to depreciate..

Y	T	Y <sub>D</sub>	C	S	I	G	X	M	AE
0			45		60			0	
100			90					10	
200								20	
300						150			
400	100								
500	125								
600									
700							60		
800									

Calculate:

MPC

MPS

MPI

The multiplier