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Econ 602

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Group Assignment 1

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### Group Assignment 1

1. (5 points): On January 27, 2022, U.S. President Biden said: "**The GDP numbers for my first year** show that we are finally building an American economy for the 21st Century, with the fastest economic growth in nearly four decades ... **And, for the first time in 20 years, our economy grew faster than China's. This is no accident. My economic strategy** is creating good jobs for Americans, rebuilding our manufacturing, and strengthening our supply chains here at home to help make our companies more competitive". Do you agree with President Biden's claim that the fast GDP growth in his first year (i.e., in 2021) is due to his economic strategy? Why or why not?  
<https://www.whitehouse.gov/briefing-room/statements-releases/2022/01/27/president-biden-statement-on-first-year-gdp-growth/>

Some of our group concur with Biden's assertion. The majority of industrial and supply chain businesses in the US are supported by the policy. These businesses can quickly enhance their internal operations and business plans. Manufacturing and supply chain businesses will invest in new factories and product lines in order to maximize profits in the market. Many workers from the community are employed by these new factories, lowering the unemployment rate in America. To increase people's need for work and life skills, these businesses offer a sufficient possibility of employment and a better wage. Additionally, Biden strongly believes that businesses should create new fundamental technologies rather than continuing to use or generate outdated ones. New technology has the potential to boost the American economy and make American businesses more competitive. Therefore, reviving manufacturing, bolstering

supply chains, and creating new technology are the main drivers of the quickest economic growth.

Meanwhile, Yuxin and Shuya have different points. They disagree with Biden's claim. Firstly, the GDP growth rate of US in 2021 was compared with the previous year (2020) which was quite low due to the pandemic circumstance. In this case, it may be irrational to award Biden with the sharp increase in GDP. Moreover, we should not ignore the high inflation in US in 2021. According to the data, the growth of nominal GDP in US did not exceed the growth of that in China. High inflation rate is an essential element that may threaten the economy in US.

2. (5 points): In this week's class, we will discuss the equation for long-run equilibrium in the labor market:  $s \times E = f \times U$  (assuming that the labor force is fixed). Use this equation to show that the equation for the natural rate of unemployment is  $\left(\frac{U}{L}\right)^* = \frac{s}{s+f}$ .

$$sE = fU$$

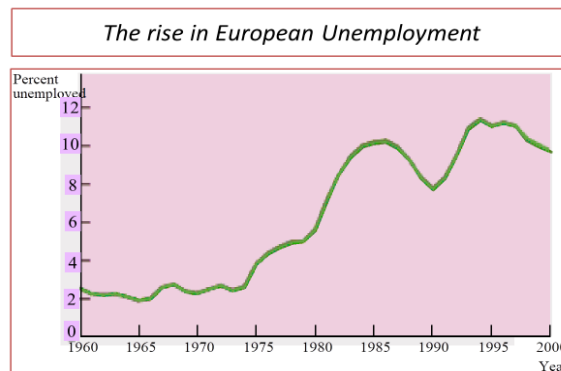
$$E = L - U$$

$$\Rightarrow s(L - U) = fU$$

$$\Rightarrow sL = (s + f)U$$

$$\Rightarrow U/L = s/(s + f)$$

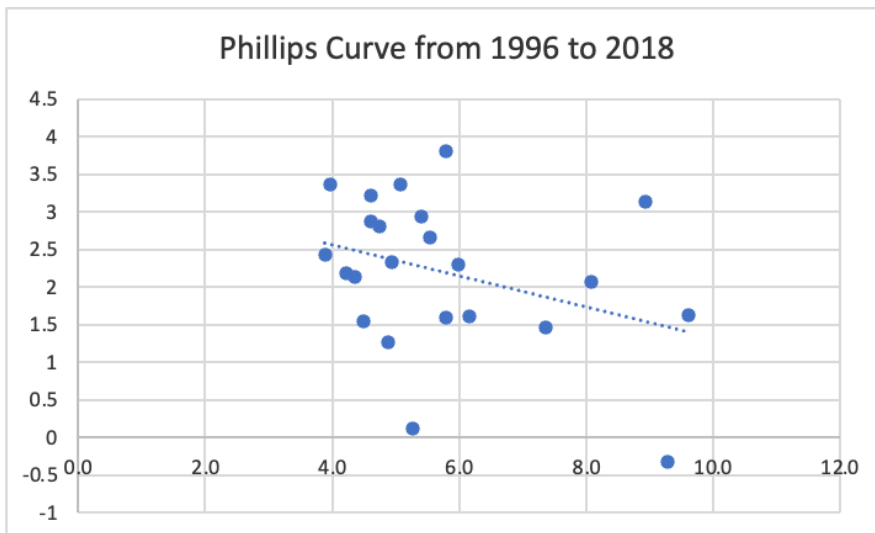
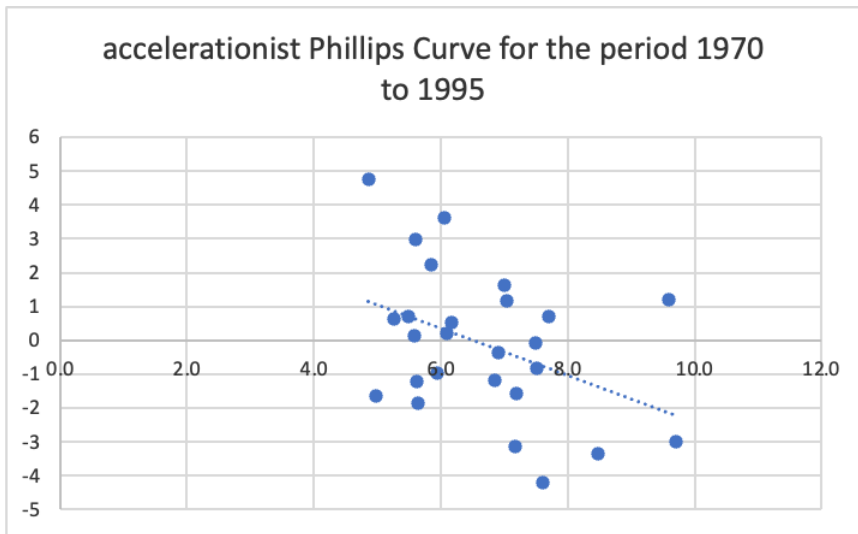
3. (10 points): Continuing with the question above, use the equation for the natural rate to explain why European unemployment went up between 1975 and 2000. You should think about what might have happened to  $s$  and  $f$  that would lead to the increase in unemployment.



$s/(s+f)$  is the unemployment rate. European unemployment went up between 1975 and 2000 due to the  $s$  increase and  $f$  decreased. This makes the unemployment higher. I suppose the

populace increase in Europe at some stage in this time may additionally have resulted in greater people looking for jobs than vacancies. During this time, the growing populace has improved the demand for jobs. This makes it more cost-effective for employers to fire workers, which will increase the unemployment rate. The extent of unemployment between 1975 and 2000 can be attributed to these variables.

- (10 points): Download data from FRED (<https://fred.stlouisfed.org/>) on the U.S. inflation rate (CPIAUCSL) and the unemployment rate (UNRATE). Estimate the accelerationist Phillips Curve for the period 1970 to 1995 and the Phillips Curve from 1996 to 2018. Please copy the two charts into the Word documents (and attach a separate EXCEL sheet to show your work).



5. (20 points): Draft the monetary policy decision that the U.S. Federal Reserve will release on Sep. 21, 2022. Your statement should look like this:

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20220727a.htm>

Recent retail sales data have weakened and manufacturing indicators have slowed, reflecting the downward pressure on the economy. Although initial jobless claims continue to fall and the labor market is recovering, strong labor demand is a driver of current high inflation. Coupled with the high CPI index, the market may have an entrenched high inflation.

Global economic activity remains under pressure from the COVID-19 and the monkeypox pandemic. Meanwhile, economic difficulties and inflation caused by the Russia-Ukraine conflict still need attention. The Committee is highly concerned about future developments and the likely persistence of inflation risks.

The target inflation rate of 2% was not achieved. The committee decided to increase the federal funds rate to 3 to 3-1/4 percent, trying to lower the inflation rate. Moreover, the committee continues to shrink the balance sheet, raising the holding of USD and reducing the circulation of USD. On the other hand, the investment in bonds will be reduced, and the committee will keep selling Treasury securities. By taking these steps, the committee hopes to solve the high inflation rate.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.