Study Guide  
Chapter 6: Unemployment and Inflation

The Bureau of Labor Statistics computes the unemployment rate and inflation rate (through Consumer Price Index) and releases them monthly.

1. Unemployment
   - Adult population
   - Employed
   - Unemployed
   - Not in labor force
   - Labor force
   - Labor Force = # of employed + # of unemployed
   - Unemployment rate =
   - Labor force participation rate =

2. Types of unemployment
   - Frictional unemployment –
   - Structural unemployment –
   - Natural rate of unemployment –
     Natural rate of unemployment = frictional unemployment + structural unemployment.
     In the U.S. economists estimate the natural rate of unemployment is about 5% in 2009.
   - Cyclical unemployment –
   - Actual unemployment = frictional unemployment + structural unemployment + cyclical unemployment

3. Cost of Living
   - Concepts:
     Inflation –
     Hyperinflation –
     Deflation –

Consumer Price Index (CPI) is used to measure the cost of living. The Bureau of Labor Statistics computes CPI monthly.

   - How to construct CPI? (read the textbook for detail)
     Step 1.
     Step 2.
     Step 3.
     Step 4.

     CPI of a particular year =
     (cost of basket in the particular year / cost of basket in the base year) x 100
4. Problems of CPI
   - Substitution bias
   - Excluding new goods
   - Unmeasured quality improvement

5. Computing inflation rate using CPI and GDP deflator.

\[
\text{Inflation rate in year 2} = \frac{\text{Price index in year 2} - \text{Price index in year 1}}{\text{Price index in year 1}} \times 100\%
\]

6. CPI vs. GDP deflator (textbook page 127)

7. Convert the dollar from the past amount to the present amount (textbook page 128)

8. Phillips curve