*Both the inflation rate and unemployment rate are closely watched aspects of macroeconomic performance metrics of the economy, and they are also among the key variables guiding macroeconomic policy targets. Moreover, the sum of the inflation rate and the unemployment rate is described as the misery index, which purports to measure the health of the economy and welfare.*

*The existence of a high unemployment rate is a serious problem for households and for a nation at large. National outputs of goods and services decline during the recessionary gap of the business cycle and lead to a high rate of unemployment. On the other hand, inflationary pressure leads to a high inflation rate, which in turn leads to a decline in real income. Thus high inflation rate has an adverse effect on the welfare of citizens, and the general economic well-being of a nation since it reduces effective demand and purchasing power of the people.*

*Studies indicate that there is a short-run trade-off between the inflation rate and the unemployment rate. Thus, in the short run, the trade-off between the inflation rate and the unemployment rate creates a challenge for macroeconomic policymakers.*

***Consider inflation versus unemployment and answer the following question***

1. *Official unemployment rate is an imperfect measure of joblessness. Give examples of how the definition of unemployment rate overstates or understates the number of jobless people in the economy.*