Test Bank for Economics Today The Macro View 18th Miller

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Economics Today, 18e **(Miller)**
Chapter 7 The Macroeconomy: Unemployment, Inflation, and Deflation

7.1 Unemployment

1) Which of the following is TRUE of unemployment?
A) It is defined as the number of people actively looking for work who do not have jobs.
B) The result is that the economy operates inside its production possibilities curve.
C) There are psychological consequences associated with unemployment.
D) All of the above.
Answer: D
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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2) Which of the following is TRUE about the *labor force*?
A) It includes those over 16 ages old and are employed.
B) It includes those over 16 ages old and are unemployed.
C) Both A and B are correct.
D) None of the above is correct.
Answer: C
Diff: 2
Topic: 7.1 Unemployment
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3) A country's *labor force* is equal to
A) the population between the ages of 16 and 65.
B) the number of employed people.
C) the total number of employed and unemployed people.
D) the total number of employed people, unemployed people, and discouraged workers.
Answer: C
Diff: 2
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4) Which of the following people would be considered *unemployed*?
A) Homer, who lost his job at the power plant and is not looking for work
B) Lenny, who is working part time at a fast food restaurant
C) Abe, who is retired
D) Edna, who lost her job as a teacher and is currently searching for a new job
Answer: D
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5) The term "unemployment" is best described as the total number of
A) people not working.
B) people who have been laid off and have stopped looking for work.
C) adults who work fewer hours than they wish to work.
D) adults who are looking for work but have not found a job.
Answer: D
Diff: 1
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6) According to the text, during which time period did the United States have the highest unemployment rates?
A) 1930s
B) 1950s
C) 1980s
D) 2000s
Answer: A
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7) Individuals who have stopped looking for work because they are convinced that they will not find a job are considered
A) structurally unemployed.
B) discouraged workers.
C) part of the labor force.
D) underemployed.
Answer: B
Diff: 2
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8) Which federal agency publishes the United States' unemployment figures?
A) Health and Human Services
B) The Bureau of Labor Statistics
C) the Federal Reserve
D) the Senate Committee on Labor Relations
Answer: B
Diff: 1
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9) In the history of the United States, unemployment reached its highest rate
A) in the Panic of 1893.
B) in the 1930s.
C) in the period between World War II and the Korean War.
D) in the Great Recession of the late 2000s.
Answer: B
Diff: 1
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10) When did the United States register its lowest unemployment rate?
A) in the 1920s
B) in the economic boom of the 1990s
C) in the Roaring Nineties (1890s)
D) at the end of World War II
Answer: D
Diff: 1
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11) The population of individuals at least 16 years of age can be broken into 3 groups. They are
A) the unemployed, discouraged workers, and retirees.
B) those employed full-time, those employed only part-time, and the unemployed.
C) those working in the for-profit sector, those working in the nonprofit sector, and individuals who are unemployed.
D) none of the above.
Answer: D
Diff: 1
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12) The rate of unemployment is calculated as the number of
A) unemployed workers divided by the number of employed workers.
B) people in the civilian labor force divided by the number of unemployed.
C) unemployed divided by the number of people in the civilian labor force.
D) employed workers divided by the number of unemployed workers.
Answer: C
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13) According to the Bureau of Labor Statistics, if you voluntarily leave your job to search for another job, then you
A) are classified as unemployed.
B) are eligible for unemployment compensation.
C) may not re-enter the labor force for six months.
D) are classified as a job loser.
Answer: A
Diff: 1
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14) Official unemployment rates may underestimate the true rate of unemployment because the official rate
A) includes those workers who only work part time.
B) may include some individuals who are not actually in the labor force.
C) does not include individuals receiving any type of unemployment compensation.
D) fails to include discouraged workers.
Answer: D
Diff: 1
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15) The official unemployment rate may understate the true rate of unemployment because of
A) workers who hold two jobs.
B) increases in worker productivity.
C) changes in wage rates.
D) discouraged workers who no longer are actively seeking work and are excluded from the statistics.
Answer: D
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16) Historically, the United States has experienced
A) continuous decreases in the unemployment rate since World War II.
B) periods of both increases and decreases in the unemployment rate since World War II.
C) continuous increases in the unemployment rate since World War II.
D) no changes in the unemployment rate since World War II.
Answer: B
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17) If the U.S. economy enters a recession, the
A) economy experiences full employment.
B) unemployment rate tends to increase.
C) labor force tends to increase.
D) entire population will be partially unemployed.
Answer: B
Diff: 1
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18) The total civilian labor force is comprised of
A) the unemployed and the employed.
B) only the employed.
C) all individuals over 16 years of age, whether or not they work or are seeking work.
D) only full-time employed individuals between the ages of 18 and 55.
Answer: A
Diff: 1
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19) The labor force includes individuals who are:
I. Employed
II. Unemployed
III. Discouraged workers
A) I only
B) Both I and II
C) Both I and III
D) All I, II and III
Answer: B
Diff: 2
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20) Which of the following best fits the definition of unemployed?
A) retired and not working
B) working less than a full work week
C) not working but looking for a job
D) not working at a gainful pursuit, either in or out of the home
Answer: C
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21) By definition, the labor force participation rate is
A) the percentage of institutionalized working-age individuals who are employed or seeking employment.
B) the percentage of noninstitutionalized working-age individuals who are employed or seeking employment.
C) the annual rate of growth in the number of people who are either employed or searching for available jobs.
D) the annual rate of growth in the number of people who are unemployed and searching for available government-provided unemployment benefits.
Answer: B
Diff: 1
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22) The rate of unemployment is found by
A) dividing the number unemployed by the number of people in the labor force.
B) dividing the number unemployed by the number employed.
C) dividing the number employed by the number of people in the labor force.
D) dividing the number employed by the number unemployed.
Answer: A
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23) Including discouraged workers in the calculation of the unemployment rate would
A) increase the reported rate.
B) lower the reported rate.
C) not change the reported rate.
D) change the reported rate, but in an unpredictable manner.
Answer: A
Diff: 1
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24) Unemployment is measured as
A) all teens and adults in the civilian labor force who are not working.
B) all adults in the civilian labor force who are willing and able to work and who are actively looking for work, but have not found a job.
C) all adults in the civilian labor force, regardless of whether or not they have been engaged in actively seeking employment, who do not have the job they want.
D) all adults in the civilian labor force who are not working.
Answer: B
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25) The labor force is defined as the number of
A) employed plus the number of unemployed.
B) people who are working.
C) people who are working in labor-type jobs.
D) union members who are working.
Answer: A
Diff: 1
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26) The U.S. Department of Labor classifies all individuals in the United States as
A) labor force participants.
B) either employed, unemployed, or not in the labor force.
C) either overemployed or underemployed.
D) potential employees.
Answer: B
Diff: 1
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27) A person who previously had a full-time job has been paroled from prison and has applied for a job is considered
A) a reentrant.
B) a job loser.
C) a new entrant.
D) not in the labor force.
Answer: A
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28) Increases in the duration of unemployment may
A) reflect a general downturn in economic activity that depresses job openings.
B) increase the number of discouraged workers.
C) increase the unemployment rate.
D) all of the above.
Answer: D
Diff: 1
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29) Which category of unemployed individuals makes up the greatest share of those who are unemployed?
A) new entrants
B) reentrants
C) job losers
D) job leavers
Answer: C
Diff: 1
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30) Which of the following is a stock variable? The number of
A) unemployed people.
B) reentrants.
C) job losers.
D) job leavers.
Answer: A
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31) The number of people that are fired in a month is
A) a stock.
B) a flow.
C) both a stock and a flow.
D) neither a stock nor a flow.
Answer: B
Diff: 1
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32) When there is an increase in the duration of unemployment, the U.S. Congress typically responds by
A) lowering income taxes.
B) extending unemployment benefits.
C) encouraging unemployed U.S. workers to seek employment overseas.
D) redefining "unemployed" so the unemployment rate does not look so bad.
Answer: B
Diff: 1
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33) The labor-force participation rate shows the percentage of
A) people not working, but who want to work.
B) people who are not actively participating in meaningful economic activity.
C) new entrants into the labor force.
D) non-institutionalized working-age people who are actually working or seeking employment.
Answer: D
Diff: 1
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34) The largest major change in the U.S. labor force participation rate during the last few decades has been
A) the number of prisoners dropping out of the labor force.
B) the increase in the number of working women.
C) the decrease in the number of working women.
D) the increase in the number of illegal immigrants in the United States.
Answer: B
Diff: 2
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35) In the United States, the labor-force participation rate since 1960 has been
A) increasing for females.
B) declining for females.
C) declining for both males and females.
D) unchanged for both males and females.
Answer: A
Diff: 1
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36) If a person is laid off from a job, he is considered by the Bureau of Labor Statistics to be a
A) job loser.
B) reentrant.
C) job leaver.
D) new entrant.
Answer: A
Diff: 1
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37) If I voluntarily end my employment, the Bureau of Labor Statistics would consider me to be
A) a job loser.
B) a job leaver.
C) a discouraged worker.
D) a reentrant.
Answer: B
Diff: 1
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38) Which of the following would NOT be considered unemployed?
A) a new entrant to the labor force
B) a job leaver who is looking for a better job
C) an individual fired by her employer
D) a newly retired worker
Answer: D
Diff: 1
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39) The largest category of the unemployed are
A) job losers.
B) reentrants.
C) job leavers.
D) new entrants.
Answer: A
Diff: 1
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40) Which of the following can cause official unemployment figures to underestimate the true unemployment rate?
A) Some people get discouraged and quit looking for a job.
B) Some people engage in illegal activities.
C) Some people work "off the books."
D) Some people work overtime.
Answer: A
Diff: 2
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41) The unemployment rate will rise when
A) people get discouraged and quit looking for a job.
B) the average work week falls from 40 hours to 39 hours.
C) the duration of unemployment increases.
D) the size of the labor force increases without an increase in employment.
Answer: C
Diff: 2
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42) In recent years the labor force participation rate has been fairly stable
A) as has the labor force participation rate for males, females, minorities, and nonminorities.
B) although the female labor force participation rate has fallen while the male labor force participation rate has increased.
C) although the male labor force participation rate has fallen while the female labor force participation rate has increased.
D) although the labor force participation rate of young adults has increased while the labor force participation rate of those in the 40-55 age classification has fallen.
Answer: C
Diff: 2
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43) If the duration of unemployment in a country increases from 16 weeks to 18 weeks, then
A) the unemployment rate will decrease.
B) the unemployment rate will increase.
C) the size of the labor force will increase.
D) the size of the labor force will decrease.
Answer: B
Diff: 1
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44) The duration of unemployment tends to
A) increase when business activity decreases.
B) increase when employment increases.
C) increase when the labor force shrinks.
D) stay consistently the same over long periods of time.
Answer: A
Diff: 1
Topic: 7.1 Unemployment
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45) People who have dropped out of the labor force and who are no longer looking for a job because they believe the job market has little to offer them are classified by the Labor Department as
A) unemployed.
B) non-participants.
C) discouraged workers.
D) wage-rate busters.
Answer: C
Diff: 1
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46) Which of the following people would be considered unemployed by the Bureau of Labor Statistics?
I. Mrs. X retires from her job and does not look for another job.
II. Mr. Y was laid off from his job as a welder, but expects to be rehired in 8 months.
A) I only
B) II only
C) Both I and II
D) Neither I nor II
Answer: B
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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47) To be officially counted as unemployed, a person must be
A) at least 16 years old.
B) at least 18 years old.
C) at least 21 years old.
D) any age, so long as you are looking for work.
Answer: A
Diff: 1
Topic: 7.1 Unemployment
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48) Who is considered officially unemployed?
A) Six months after failing to get a job, Abba quit looking.
B) Monica graduated from college last summer but is still unemployed despite her spirited search.
C) Kariuki is a retired teacher.
D) Chen is going to school full time.
Answer: B
Diff: 1
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49) Costs of unemployment include
A) structural unemployment.
B) the output lost due to the fact that the economy is not running at full employment.
C) reduction in the labor force.
D) higher wages.
Answer: B
Diff: 1
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50) Jasime voluntarily quit her job and is now searching for a new position. Jasime is classified as a
A) job loser.
B) job reentrant.
C) job leaver.
D) new entrant.
Answer: C
Diff: 1
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51) If there is unemployment and all businesses are operating at less than full capacity, then
A) there are too many workers, and some people ought to leave the labor force.
B) we are not experiencing a net social cost to unemployment because it is offset by the capacity levels of the factories.
C) society is producing inside its production possibilities curve.
D) society is at the wrong point on the production possibilities curve.
Answer: C
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52) The labor force participation rate includes
A) only those who are employed.
B) only those employed but looking for a job.
C) both employed workers and discouraged workers not seeking jobs.
D) both employed workers and those unemployed but seeking employment.
Answer: D
Diff: 2
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53) One major reason that economists are concerned about unemployment is that
A) unemployment always leads to frictional unemployment.
B) unemployment reduces the size of the labor force.
C) unemployment shifts the production possibilities curve outward.
D) the economy is producing less output than if there were full employment.
Answer: D
Diff: 1
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54) Which of the following individuals is NOT counted as unemployed?
A) Jamil, who recently quit his job and is looking for a new position
B) Jackie, who was recently fired and is now applying for another job
C) Jack, who has become discouraged about ever finding a job and has stopped looking
D) Jennifer, who just graduated from college and is now seeking employment with the company of her dreams.
Answer: C
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55) To be considered officially unemployed, a person must be at least 16 years old
A) and not working.
B) and not in school and not working.
C) and be a discouraged worker.
D) and not working but is actively seeking employment.
Answer: D
Diff: 1
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56) Over the last 100 years in the United States, unemployment reached its highest rate
A) in the 1920s.
B) in the 1930s.
C) in the 1970s.
D) in the 1980s.
Answer: B
Diff: 1
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57) The population is 1,000 million, the labor force is 750 million, and the number of unemployed is 30 million. What is the unemployment rate?
A) 7.5 percent
B) 4 percent
C) 10 percent
D) 3 percent
Answer: B
Diff: 1
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58) To be officially classified as unemployed, a person must be
A) collecting unemployment benefits.
B) at least 18 and not working.
C) at least 16, not working and actively seeking employment.
D) laid off or fired.
Answer: C
Diff: 1
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59) The labor force is defined as
A) all individuals who are currently employed.
B) all individuals who are at least 16 years old and are currently employed.
C) all individuals who are at least 16 years old and are currently employed or unemployed.
D) all individuals who are at least 16 years old and are employed, looking for work or not looking for work.
Answer: C
Diff: 1
Topic: 7.1 Unemployment
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60) The labor force includes all of the following individuals who are 16 years or older EXCEPT
A) people who have never been in the labor force but have just found a job.
B) the employed.
C) the unemployed.
D) people who are retired and not actively seeking work.
Answer: D
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61) The definition of the adult population is those who are 16 years and older and who are
A) employed or unemployed.
B) in the labor force.
C) in the labor force or not in the labor force.
D) not in the labor force.
Answer: C
Diff: 1
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62) A person who has taken medical leave is
A) in the labor force.
B) not in the labor force.
C) unemployed.
D) a job leaver.
Answer: A
Diff: 2
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63) By the legal definition of unemployment, a person who has quit his job to take care of his children full time is
A) unemployed.
B) employed.
C) in the labor force.
D) not in the labor force.
Answer: D
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64) The labor force is defined as
A) the number of people over 16 years of age.
B) the number of people who are working.
C) the sum of the employed and the unemployed.
D) the number of people in blue-collar jobs.
Answer: C
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

65) Unemployment is a _____ concept, measuring the _____.
A) flow; number of people who are first entering the labor force
B) flow; number of people who lost their jobs within the last week
C) stock; number of people who are not working
D) stock; number of people at a point in time who are not working but who are looking for work
Answer: D
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

66) Unemployment is a
A) flow concept.
B) stock concept.
C) both a flow and a stock concept.
D) neither a stock nor a flow concept.
Answer: B
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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67) Suppose that last week 100,000 people lost their jobs or quit. We can say that
A) the number of unemployed increased by 100,000 people.
B) the number of unemployed increased by less than 100,000 people because we should not count those who quit their jobs.
C) the 100,000 people represent a flow known as job departures.
D) the 100,000 people represent a stock known as the new unemployed.
Answer: C
Diff: 3
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Application of knowledge

68) Distinguishing between stock measures and flow measures of the labor force, the ***stock*** measures are
A) the labor force only.
B) the number of people who lost their jobs and the number of people who found jobs only.
C) the total number of people who are unemployed only.
D) the total number in the labor force and the total number of people who are unemployed only.
Answer: D
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

69) Distinguishing between stock measures and flow measures, the ***flow*** measures are
A) the labor force only.
B) the number of people who lost their jobs and the number of people who found jobs only.
C) the total number of people who are unemployed only.
D) the total number in the labor force and the total number of people who are unemployed only.
Answer: B
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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70) Suppose there are 100 million in the labor force, and 6 million unemployed people. During the next month, 200,000 people lose their jobs and 300,000 find jobs. The new total of employed is _____ and the new unemployment rate is _____.
A) 100.1 million; 5.8 percent
B) 100 million; 6.1 percent
C) 94.1 million; 5.9 percent
D) 93.9 million; 6.1 percent
Answer: C
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Application of knowledge

71) Suppose the population of El Campo is 120,000. Of the population 16 years and older, 50,000 are employed, 10,000 have never worked and are not looking for work, 5,000 are not working and are looking for work, and 15,000 are retired and not looking for work. The labor force equals
A) 50,000.
B) 55,000.
C) 65,000.
D) 80,000.
Answer: B
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Application of knowledge

72) Suppose the population of El Campo is 120,000. Of the population 16 years and older, 50,000 are employed, 10,000 have never worked and are not looking for work, 5,000 are not working and are looking for work, and 15,000 are retired and not looking for work. The number unemployed equals
A) 5,000.
B) 10,000.
C) 15,000.
D) 20,000.
Answer: A
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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73) The population of a small town is 5,000. There are 4,000 people in the labor force, and 3,000 people are employed. The unemployment rate equals
A) 25 percent.
B) 60 percent.
C) 75 percent.
D) an undetermined amount given the lack of information.
Answer: A
Diff: 3
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Application of knowledge

74) In a small country, the adult population is 10,000. In that country, 7,000 people are in the labor force and 6,300 people are employed. The unemployment rate equals
A) 0.63 percent.
B) 7 percent.
C) 10 percent.
D) an undetermined amount given the lack of information.
Answer: C
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Application of knowledge

75) In a small country, the adult population equals 10,000. In that country, 8,000 people are in the labor force and 200 people are unemployed. The unemployment rate equals
A) 2.5 percent.
B) 2 percent.
C) 4 percent.
D) an undetermined amount given the lack of information.
Answer: A
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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76) A job loser is an individual
A) in the labor force whose employment was involuntarily terminated.
B) who used to work full time but left the labor force and has now reentered it looking for a job.
C) in the labor force who quits voluntarily.
D) who has never held a full-time job lasting two weeks or longer but is now seeking employment.
Answer: A
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

77) A reentrant is an individual
A) in the labor force whose employment was involuntarily terminated.
B) who used to work full time but left the labor force and has now reentered it looking for a job.
C) in the labor force who quits voluntarily.
D) who has never held a full-time job lasting two weeks or longer but is now seeking employment.
Answer: B
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

78) A job leaver is an individual
A) in the labor force whose employment was involuntarily terminated.
B) who used to work full time but left the labor force and has now reentered it looking for a job.
C) in the labor force who quits voluntarily.
D) who has never held a full-time job lasting two weeks or longer but is now seeking employment.
Answer: C
Diff: 1
Topic: 7.1 Unemployment
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79) An individual in the labor force whose employment was involuntarily terminated is
A) a job leaver.
B) a job loser.
C) a job reentrant.
D) part of the PPI.
Answer: B
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

80) All of the following are considered to be unemployed EXCEPT
A) job leavers.
B) discouraged workers.
C) job reentrants.
D) new job entrants.
Answer: B
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

81) New entrants to the labor force usually account for around _____ percent of the unemployed.
A) ten
B) twenty
C) twenty-five
D) thirty
Answer: A
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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82) A new entrant is an individual
A) in the labor force whose employment was involuntarily terminated.
B) who used to work full time but left the labor force and has now reentered it looking for a job.
C) in the labor force who quits voluntarily.
D) who has never held a full-time job lasting two weeks or longer but is now seeking employment.
Answer: D
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

83) The unemployment rate can increase when
A) the number of job finders increases.
B) the size of the military increases.
C) the proportion of 18-22 year olds that go to college increases.
D) the number of unemployed workers increases.
Answer: D
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

84) The duration of unemployment tends to rise when
A) people leave their jobs rather than lose their jobs.
B) the number of entrants exceeds the number of reentrants.
C) business activity starts back up after a long period of decline.
D) business activity goes into a downturn.
Answer: D
Diff: 2
Topic: 7.1 Unemployment
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85) Discouraged workers
A) are considered part of the unemployed because they are not working.
B) are considered part of the unemployed because they are still in the labor force.
C) are not considered part of the unemployed because they quit their jobs voluntarily.
D) are not considered part of the unemployed because they are not actively seeking work.
Answer: D
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

86) A discouraged worker is someone who
A) has been fired.
B) is unemployed.
C) is not in the labor force.
D) is employed.
Answer: C
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

87) One criticism of the unemployment rate is that it
A) does not include the number of discouraged workers as unemployed.
B) does not include people who are not working and are not looking for work.
C) counts a new entrant that is actively seeking work as unemployed.
D) is a stock measure.
Answer: A
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

88) The unemployment rate will decrease when
A) the duration of unemployment increases.
B) the average workweek falls from 40 to 39 hours.
C) the age of the labor force increases.
D) people get discouraged and quit looking for work.
Answer: D
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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89) The percentage of the noninstitutionalized working-age individuals who are employed or seeking work is known as
A) the labor force.
B) the labor force participation rate.
C) discouraged worker.
D) the stock of employed and unemployed workers.
Answer: B
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

90) An increase in the labor force participation rate
A) implies that the unemployment rate must fall.
B) implies that the unemployment rate must rise.
C) means there are more discouraged workers.
D) is consistent with either a rise or a fall in the unemployment rate.
Answer: D
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

91) The labor force participation rate is the
A) proportion of the noninstitutionalized adult population in the labor force.
B) proportion of the labor force that is employed.
C) proportion of the labor force that is unemployed.
D) proportion of the noninstitutionalized adult population that is employed.
Answer: A
Diff: 1
Topic: 7.1 Unemployment
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92) The major change in American labor markets this *century* is
A) the steady rise of the unemployment rate.
B) the steady rise of the employment rate.
C) the increase in the female labor-force participation rate.
D) the increase in the labor-force participation rate.
Answer: C
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

93) Which of the following would NOT be a factor that has contributed to the rising female labor force participation rate?
A) greater access to education
B) greater access to training
C) increasing family size
D) reduction of barriers to competing with men for jobs
Answer: C
Diff: 3
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

94) In a small country, the adult population equals 5,000. There are 4,000 people in the labor force and 3,000 people are employed. The labor force participation rate equals
A) 25 percent.
B) 80 percent.
C) 30 percent.
D) an undetermined amount given the lack of information.
Answer: B
Diff: 3
Topic: 7.1 Unemployment
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95) In a small country, the adult population equals 10,000. There are 3,000 people unemployed and 4,000 people are employed. The labor force participation rate equals
A) 70 percent.
B) 57 percent.
C) 40 percent.
D) an undetermined amount given the lack of information.
Answer: A
Diff: 3
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

96) In a small country, there are 5,000 people in the labor force and 3,000 people are employed. The labor force participation rate equals
A) 40 percent.
B) 60 percent.
C) 62.5 percent.
D) an undetermined amount given the lack of information.
Answer: D
Diff: 3
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

97) To be counted in the labor force
A) a person has to be working at least 40 hours per week.
B) a person has to be at least 16 or older, have a job, or if unemployed has to be actively seeking employment.
C) a person, irrespective of his or her age, has to be working or, if out of work, actively seeking employment.
D) a person has to be over 16 years of age, irrespective of whether she or he is actively seeking work.
Answer: B
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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98) To be counted as unemployed in the United States a person has to be
A) at least 16 and out of work.
B) at least 16, out of work, and actively seeking employment.
C) at least 16 and less than 65 and actively seeking employment.
D) out of work and actively seeking employment.
Answer: B
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

99) All of the following are examples of a flow EXCEPT
A) a new entrant into the labor force.
B) an individual who voluntarily leaves the labor force.
C) a person who is fired from a job.
D) the current unemployment rate.
Answer: D
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

100) A person who is currently not working and has stopped looking for a job because he or she is convinced there is no job available is classified as a
A) discouraged worker.
B) disgruntled worker.
C) depressed worker.
D) dissatisfied worker.
Answer: A
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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101) The labor force participation rate is
A) the percentage of the population who are in the labor force.
B) the percentage of the non-institutionalized working age population who is in the labor force.
C) the percentage of the non-institutionalized population who is in the labor force.
D) the percentage of the entire population who is in the labor force.
Answer: B
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

102) Since 1950, the labor force participation rate in the United States
A) of men and women both increased.
B) of men increased and women decreased.
C) of men and women both decreased.
D) of men decreased and for women increased.
Answer: D
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

103) Which one of the following statements is TRUE?
A) The existence of unemployment places the economy at a point inside its production possibilities curve.
B) The unemployment rate is the percentage of the population not working.
C) To be counted as part of the labor force, an individual must be working more than 40 hours a week.
D) The sum of wages lost by all unemployed workers gives an accurate, comprehensive estimate of the total cost of unemployment.
Answer: A
Diff: 2
Topic: 7.1 Unemployment
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104) During the Great Depression
A) the unemployment rate was not unusually high, but wage levels were low.
B) unemployment statistics were not collected.
C) the U.S. unemployment rate reached its historical highest.
D) most people who couldn't find work left the labor force, so the official unemployment rate remained low.
Answer: C
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

105) Which one of the following individuals is NOT counted as unemployed?
A) a recent college graduate currently without any employment and looking for her first full-time job
B) a 35-year-old woman fired from her prior work because of poor performance and looking for another job
C) a 50-year-old woman laid off from her former job because of a downturn in the company's sales and looking for another job
D) a 22-year-old aspiring actress currently without any show business employment, but working temporarily as a waitress while she auditions for acting jobs
Answer: D
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

106) The average duration of unemployment across the labor force is about
A) 25 weeks.
B) 15 weeks.
C) 8 weeks.
D) 4 weeks.
Answer: B
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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107) What is the definition of a discouraged worker?
A) a member of the labor force who is working but is discouraged about his prospects for advancement within the company
B) a member of the labor force who is working but is discouraged about the performance of his company within the industry
C) a person who has dropped out of the labor force because he is discouraged about his prospects for employment
D) an employed member of the labor force who is discouraged about his pay
Answer: C
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

108) Which one of the following accurately describes the trends in U.S. labor force participation over the past 50 years?
A) The labor force participation rate of men has climbed from about 75 percent to 90 percent.
B) The labor force participation rate of women has climbed from below 40 percent to about 60 percent.
C) The labor force participation rates for both men and women have declined.
D) The overall labor force participation rate has held steady at about 85 percent.
Answer: B
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

109) Is it possible for the unemployment rate to rise at the same time that the number of people working increases?
A) no
B) yes, if the new workers are employed less than full time
C) yes, if labor force growth outpaces growth in the number of people working
D) yes, if established workers keep their jobs but no longer have the option of working overtime
Answer: C
Diff: 3
Topic: 7.1 Unemployment
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110) The labor force in the United States includes
A) discouraged workers.
B) those over the age of 16 who are employed or are seeking employment.
C) those between ages 12 and 16 who are actually working.
D) all of the above.
Answer: B
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

Total population	745,000
Working age population	550,000
Number employed	361,000
Number of unemployed	19,000

111) Using the above table, the employment rate is
A) 65.6 percent.
B) 48.5 percent.
C) 95.0 percent.
D) 69.1 percent.
Answer: C
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Application of knowledge

112) Using the above table, the unemployment rate X is
A) 2.6 percent.
B) 5.0 percent.
C) 3.5 percent.
D) 2.1 percent.
Answer: B
Diff: 2
Topic: 7.1 Unemployment
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113) Using the above table, the labor force is
A) 380,000.
B) 911,000.
C) 930,000.
D) 569,000.
Answer: A
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Application of knowledge

114) Using the above table, the labor force participation rate is
A) 65.6 percent.
B) 73.8 percent.
C) 81.8 percent.
D) 69.1 percent.
Answer: D
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Application of knowledge

115) Unemployment statistics are often criticized for
A) understating the number of people out of work, because discouraged workers are excluded in the statistics.
B) overstating the number of people out of work, because retirees are included in the statistics.
C) understating the number people out of work, because full-time college students are excluded.
D) overstating the number of people out of work, because the unemployment statistics include all low-income workers.
Answer: A
Diff: 2
Topic: 7.1 Unemployment
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116) If Tim works at home taking care of the household
A) he is part of the labor force.
B) he is not part of the labor force.
C) he is considered to be employed.
D) he is considered to be unemployed.
Answer: B
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

117) Which of the following would be considered a member of the labor force?
A) an engineer who has been laid off a year ago and since then has not looked for work
B) an inmate in a state prison making license plates
C) a person in a mental institution
D) a computer programmer looking for work
Answer: D
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

118) Which of the following people would be considered unemployed assuming that they are actively seeking employment?
A) those who were fired from their job
B) those who resigned from their job
C) new entrants into the job market
D) All of the above are correct.
Answer: D
Diff: 2
Topic: 7.1 Unemployment
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119) The highest measured rate of unemployment in the United States occurred during
A) the post-WWII years.
B) the Panic of 1893.
C) the Carter administration.
D) the Great Depression.
Answer: D
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

120) Which of the following groups would NOT be considered as part of the civilian labor force?
A) full-time students who are not working or looking for work
B) those already employed
C) those who are unemployed
D) all individuals only working part-time
Answer: A
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

121) Assuming there are 200 million people employed in the United States and 5 million people unemployed, the unemployment rate would therefore approximately equal
A) 2.4 percent.
B) 3.2 percent.
C) 5.0 percent.
D) an undetermined amount given the lack of information
Answer: A
Diff: 1
Topic: 7.1 Unemployment
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122) "Discouraged workers"
A) would be considered as unemployed.
B) would not be considered as unemployed.
C) would be considered as part of the labor force.
D) would, according to some, tend to skew the unemployment rate upward.
Answer: B
Diff: 3
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

123) The definition of a job loser is an individual
A) who quits his job voluntarily.
B) whose employment was terminated involuntarily due to a downturn in the economy.
C) who competed for a promotion at his company and did not get it.
D) who is underemployed.
Answer: B
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

124) The definition of a job leaver is an individual
A) who terminates his job voluntarily in order to work for a family business.
B) whose employment was terminated involuntarily.
C) who competed for a promotion at his company and did not get it.
D) who is underemployed.
Answer: A
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

125) Since 1950, it can be observed that the female participation rate in our labor force has
A) increased.
B) decreased.
C) stayed constant.
D) moved erratically up and down.
Answer: A
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

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126) An individual who has stopped looking for a job because he is convinced that he cannot find a job is referred to as
A) a contingent worker.
B) a productive worker.
C) a discouraged worker.
D) an unemployed worker.
Answer: C
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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127) Annie had a job as a human resource manager of a restaurant chain that went out of business due to a downturn in the economy. She looked for work for six months and gave up because she was convinced that she could not find a suitable job to fit her skill set. In this instance she would be counted as a
A) job leaver.
B) reentrant.
C) discouraged worker.
D) labor force participant.
Answer: C
Diff: 2
Topic: 7.1 Unemployment
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128) With regard to employment status, the adult population is divided into what three groups? How is it determined whether someone is in the labor force or not?
Answer: The adult population is in one of three groups—the employed, the unemployed, and those not in the labor force. To be in the labor force, one must be 16 years old or older, and either be working or actively looking for work.
Diff: 1
Topic: 7.1 Unemployment
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129) What are the four criteria used by the Bureau of Labor Statistics to determine whether an individual is unemployed or not?
Answer: First are job losers, who became unemployed voluntarily through termination or layoff. Second are reentrants, which are people who worked at a full-time job before but have been out of the labor force for a while. Third are job leavers who voluntarily leave their jobs, and the last are new entrants, who are people who never worked a full-time job for two weeks or longer.
Diff: 1
Topic: 7.1 Unemployment
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130) Who are discouraged workers, and how do they affect labor force participation and unemployment rates?
Answer: Discouraged workers are people who have dropped out of the labor force because they don't believe they can find a job that they would want. To be considered in the labor force, one must be actively looking for work, so a discouraged worker is not considered in the labor force and is not considered unemployed. Hence, the existence of discouraged workers implies that the published unemployment rates understate the true level of unemployment.
Diff: 2
Topic: 7.1 Unemployment
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131) Distinguish between a stock and a flow. How do these concepts relate to unemployment?
Answer: A stock is a quantity of something measured at a given point in time, while a flow is a quantity measured per unit of time. Unemployment is a stock concept—there are so many people out of work at a given point in time. Over time, it increases or decreases depending on what happens to flows such as job finders and job losers.
Diff: 2
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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132) If the duration of unemployment increases, what happens to the unemployment rate, other things being equal? Why?
Answer: An increase in the duration of unemployment increases the unemployment rate. If workers stay unemployed longer, other things constant, there will be more workers unemployed at any given point in time.
Diff: 2
Topic: 7.1 Unemployment
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133) What is unemployment and what is the unemployment rate? What are the costs of unemployment?
Answer: Unemployment refers to someone who is without a job but who is actively looking for work. The unemployment rate is the proportion of the labor force, which is the people 16 and older who either are working or are looking for work, that is unemployed. The cost of unemployment is the reduced output that could have been made with full employment, as well as the psychological costs to the unemployed.
Diff: 1
Topic: 7.1 Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

7.2 The Major Types of Unemployment

1) Frictional unemployment will always exist since
A) some workers will always want to make a job transition.
B) the capitalist system promotes unemployment.
C) mismatches in skills will always exist.
D) the U.S. economy will continue to shrink.
Answer: A
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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2) Suppose that Matt quits a job with the XYZ Corporation in order to look for more rewarding employment. Matt would be
A) counted as still being employed.
B) included in the economy's "hidden employment."
C) counted as frictionally unemployed.
D) counted as cyclically unemployed.
Answer: C
Diff: 1
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3) If a person loses her job because her abilities and skills are a poor match with current requirements of employers, this person is considered
A) structurally unemployed.
B) frictionally unemployed.
C) a discouraged worker.
D) seasonally unemployed.
Answer: A
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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4) If a person is fired for poor performance but possesses skills required to obtain another job after some searching, this person is considered
A) seasonally unemployed.
B) frictionally unemployed.
C) structurally unemployed.
D) a discouraged worker.
Answer: B
Diff: 2
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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5) Bob's assembly line job has been replaced by robots, and Bob lacks abilities and skills required to attain other jobs. He is considered
A) structurally unemployed.
B) frictionally unemployed.
C) seasonally unemployed.
D) a discouraged worker.
Answer: A
Diff: 2
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6) Collin has lost his job with a telemarketing company, which has moved its operation to India. Collin is considered
A) structurally unemployed.
B) frictionally unemployed.
C) seasonally unemployed.
D) a discouraged worker.
Answer: A
Diff: 2
Topic: 7.2 The Major Types of Unemployment
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7) Many economists would argue that some frictional unemployment
A) creates massive economic disruptions and should be eliminated as quickly as feasible.
B) should be eliminated whatever the cost.
C) no longer exists because increased unemployment benefits have generally solved this problem.
D) cannot and probably should not be eliminated.
Answer: D
Diff: 1
Topic: 7.2 The Major Types of Unemployment
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8) Frictional unemployment would increase when
A) migrant workers are unemployed after harvest season.
B) the number of individuals who quit one job to find another increases.
C) discouraged workers drop out of the work force.
D) workers are replaced by machines in production.
Answer: B
Diff: 1
Topic: 7.2 The Major Types of Unemployment
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9) A recent accounting graduate from a major business school is searching for a place to begin his career as an accountant. This individual is
A) structurally unemployed.
B) seasonally unemployed.
C) cyclically unemployed.
D) frictionally unemployed.
Answer: D
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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10) When an individual is frictionally unemployed, the unemployment arises from
A) a short-term elimination of jobs because of a slowdown in business activity.
B) imperfect labor market information which requires individuals to search for appropriate employment.
C) the permanent elimination of jobs because of a change in the structure of the economy.
D) a reduction in the overall demand for labor's skills.
Answer: B
Diff: 1
Topic: 7.2 The Major Types of Unemployment
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11) Which one of the following individuals would be classified as structurally unemployed?
A) Joe was laid off by by his construction company because there was a reduction in the number of houses built in the winter.
B) Gail lost her job with the state because there was a reduction in the state budget.
C) Tommy lost his job when the steel mill where he worked was closed because domestic producers would not produce as efficiently and cheaply as foreign firms.
D) Fay lost her job in early January when the Christmas store where she worked was closed.
Answer: C
Diff: 1
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12) The fact that a number of lifeguards lose their jobs at the end of each summer would be counted as
A) cyclical unemployment.
B) frictional unemployment.
C) seasonal unemployment.
D) structural unemployment.
Answer: C
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

13) A lifeguard who is out of work in the winter is
A) frictionally unemployed.
B) structurally unemployed.
C) cyclically unemployed.
D) seasonally unemployed.
Answer: D
Diff: 1
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14) An example of a frictionally unemployed individual is
A) Charles, who has lost his job as an auto worker because of increased imports.
B) Mary, who quit her job to find work closer to her home.
C) Sam, who lost his job as a real estate salesperson when the housing market went soft.
D) Cynthia, who has few skills and is no longer looking for work.
Answer: B
Diff: 1
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15) Cyclical unemployment occurs when
A) individuals enter the labor market and make the rounds of potential employers.
B) individuals with skills no longer valued in the domestic labor market cannot find employment.
C) individuals give up the search for employment.
D) a downturn in economic activity decreases employment.
Answer: D
Diff: 1
Topic: 7.2 The Major Types of Unemployment
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16) An example of a cyclically unemployed individual is
A) Charles, who lost his job as a real estate salesperson when the housing market went soft.
B) Alice, who quit her job to enter college.
C) Mary, who lost her job in the textile industry following a decrease in the tariff on textiles.
D) Bob, who has just graduated from college and is entering the labor market.
Answer: A
Diff: 1
Topic: 7.2 The Major Types of Unemployment
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17) If an outdoor vendor loses her job when winter weather comes, this individual is
A) seasonally unemployed.
B) cyclically unemployed.
C) structurally unemployed.
D) chronically unemployed.
Answer: A
Diff: 1
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18) Structural unemployment results when
A) a reduction in consumer income reduces demand for products.
B) individuals enter the labor market in June following graduation.
C) workers face layoffs following a decrease in economic activity.
D) the introduction of a product substitute leads to a large decline in the market demand for a product so that workers specializing in the production of that product find themselves out of work.
Answer: D
Diff: 1
Topic: 7.2 The Major Types of Unemployment
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19) Which of the following explains why frictional unemployment exists?
A) Some workers have skills that have become obsolete.
B) There are individuals who work part-time but prefer to work full-time.
C) There are costs associated with searching for jobs.
D) Policy makers have been unable to prevent recessions.
Answer: C
Diff: 2
Topic: 7.2 The Major Types of Unemployment
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20) Unemployment that is caused by business recessions is called
A) frictional unemployment.
B) cyclical unemployment.
C) seasonal unemployment.
D) structural unemployment.
Answer: B
Diff: 1
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21) A person quits her job in order to spend time looking for a better paying job. This is an example of
A) frictional unemployment.
B) cyclical unemployment.
C) seasonal unemployment.
D) structural unemployment.
Answer: A
Diff: 2
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22) Environmental regulation reduces the demand for West Virginia coal and the unemployment rate in West Virginia increases. This is an example of
A) frictional unemployment.
B) cyclical unemployment.
C) structural unemployment.
D) regulatory unemployment.
Answer: C
Diff: 2
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23) Unemployment due to the fact that workers have difficulty in the search for appropriate job offers is
A) frictional unemployment.
B) structural unemployment.
C) cyclical unemployment.
D) seasonal unemployment.
Answer: A
Diff: 1
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24) Unemployment that results from a mismatch of workers' abilities and skills with current requirements of employers is
A) frictional unemployment.
B) structural unemployment.
C) cyclical unemployment.
D) seasonal unemployment.
Answer: B
Diff: 1
Topic: 7.2 The Major Types of Unemployment
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25) Unemployment that results from business recessions that occur when aggregate demand is insufficient to create full employment is
A) frictional unemployment.
B) structural unemployment.
C) cyclical unemployment.
D) seasonal unemployment.
Answer: C
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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26) Unemployment that results from the seasonal pattern of work in specific industries is
A) frictional unemployment.
B) structural unemployment.
C) cyclical unemployment.
D) seasonal unemployment.
Answer: D
Diff: 1
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27) Frictional unemployment always exists because
A) some workers quit their jobs without having another job already lined up.
B) the government has never instituted full employment policies.
C) workers are lazy and refuse to accept certain jobs.
D) recessions are necessary sometimes to keep the economy healthy.
Answer: A
Diff: 2
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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28) Frictional unemployment is
A) related to job search difficulties for potential workers.
B) a result of a poor match of worker's abilities and skills with current requirements of employers.
C) a result of business recessions that occur when aggregate demand is insufficient to create full employment.
D) a result of the seasonal pattern of work in specific industries.
Answer: A
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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29) A worker who has quit her job to obtain a higher paying job would be included in which unemployment category?
A) frictional unemployment
B) cyclical unemployment
C) structural unemployment
D) seasonal unemployment
Answer: A
Diff: 1
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30) To prevent frictional unemployment, we would have to
A) make sure that market demand for goods is stable over time.
B) eliminate the business cycle.
C) prevent people from leaving their jobs before finding another job.
D) make sure everyone went to college.
Answer: C
Diff: 2
Topic: 7.2 The Major Types of Unemployment
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31) Structural unemployment is
A) due to the fact that workers must search for appropriate job offers.
B) a result of a poor match of worker's abilities and skills with current requirements of employers.
C) a result of business recessions that occur when aggregate demand is insufficient to create full employment.
D) a result of the seasonal pattern of work in specific industries.
Answer: B
Diff: 1
Topic: 7.2 The Major Types of Unemployment
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32) Cyclical unemployment is
A) related to job search difficulties for potential workers.
B) a result of a poor match of worker's abilities and skills with current requirements of employers.
C) a result of business recessions that occur when aggregate demand is insufficient to create full employment.
D) a result of the seasonal pattern of work in specific industries.
Answer: C
Diff: 1
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33) Cyclical unemployment is caused by
A) technological change.
B) fluctuations in the business cycle.
C) a dynamic economy in which people want to switch jobs sometimes.
D) predictable shifts in production associated with different seasons.
Answer: B
Diff: 1
Topic: 7.2 The Major Types of Unemployment
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34) Seasonal unemployment is
A) due to the fact that workers must search for appropriate job offers.
B) a result of a poor match of worker's abilities and skills with current requirements of employers.
C) a result of business recessions that occur when aggregate demand is insufficient to create full employment.
D) a result of the seasonal pattern of work in specific industries.
Answer: D
Diff: 1
Topic: 7.2 The Major Types of Unemployment
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35) The seasonally adjusted unemployment rate
A) reports only seasonal unemployment.
B) removes the seasonal variation from the unemployment rate.
C) is impossible to compute since no one knows what the seasonal component equals.
D) is another name for structural unemployment.
Answer: B
Diff: 1
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36) Which of the following statements is TRUE about the seasonally adjusted unemployment rate?
A) The seasonally adjusted unemployment rate is the sum of the frictional unemployment rate, structural unemployment rate, and cyclical unemployment rate.
B) The seasonally adjusted unemployment rate shows how the unemployment rate fluctuates with the various seasons.
C) The seasonally adjusted unemployment rate is the same as the natural rate of unemployment.
D) The seasonally adjusted unemployment rate is the rate computed for Fall, Spring, Summer and Winter.
Answer: A
Diff: 1
Topic: 7.2 The Major Types of Unemployment
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37) A person graduates from college, then starts to look for a job. This is an example of
A) cyclical unemployment.
B) frictional unemployment.
C) seasonal unemployment.
D) structural unemployment.
Answer: B
Diff: 2
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38) When the automobile replaced the horse as the primary means of transportation, the unemployment rate of blacksmiths increased. This was an example of
A) cyclical unemployment.
B) frictional unemployment.
C) seasonal unemployment.
D) structural unemployment.
Answer: D
Diff: 2
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39) A cutback in the space program due to a slow economy causes an increase in unemployment among aeronautical engineers. This is an example of
A) cyclical unemployment.
B) frictional unemployment.
C) seasonal unemployment.
D) structural unemployment.
Answer: A
Diff: 2
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40) A recession causes a decrease in the demand for housing, resulting in substantial layoffs in the construction industry. This is an example of
A) cyclical unemployment.
B) frictional unemployment.
C) seasonal unemployment.
D) structural unemployment.
Answer: A
Diff: 2
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41) The United States experienced a deep recession between 2007 and 2009. Which type of unemployment would most likely increase during that period of recession?
A) cyclical unemployment
B) frictional unemployment
C) seasonal unemployment
D) structural unemployment
Answer: A
Diff: 2
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42) Reductions in employment in the U.S. auto industry caused by the increased adoption of new technologies to produce cars more efficiently is an example of
A) cyclical unemployment.
B) frictional unemployment.
C) seasonal unemployment.
D) structural unemployment.
Answer: D
Diff: 1
Topic: 7.2 The Major Types of Unemployment
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43) A person who is employed in the construction industry may frequently experience
A) frictional unemployment.
B) structural unemployment.
C) seasonal unemployment.
D) technological unemployment.
Answer: C
Diff: 1
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44) Corrina just graduated from college, is unemployed, and looking for her first real job. This is an example of
A) frictional unemployment.
B) structural unemployment.
C) seasonal unemployment.
D) cyclical unemployment.
Answer: A
Diff: 2
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45) Lois worked for General Motors and was laid off when car sales fell during a recession with falling incomes. This is an example of
A) frictional unemployment.
B) structural unemployment.
C) seasonal unemployment.
D) cyclical unemployment.
Answer: D
Diff: 2
Topic: 7.2 The Major Types of Unemployment
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46) Suppose that unemployment increases because the government requires employers to provide more funds for their employees' retirement programs. The increase in unemployment is most likely a result of an increase in
A) frictional unemployment.
B) structural unemployment.
C) the natural rate of unemployment.
D) cyclical unemployment.
Answer: B
Diff: 2
Topic: 7.2 The Major Types of Unemployment
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47) Mrs. Garcia lost her job at a textile mill due to competition from cheaper imported goods. She would be classified as
A) frictionally unemployed.
B) not in the labor force.
C) cyclically unemployed.
D) structurally unemployed.
Answer: D
Diff: 2
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48) After completing college, John Smith spent two months looking for a job. During this period he would be classified as
A) frictionally unemployed.
B) not in the labor force.
C) cyclically unemployed.
D) structurally unemployed.
Answer: A
Diff: 2
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49) Unemployed U.S. residents who are, in effect, merely searching for work between jobs, are defined as
A) frictionally unemployed.
B) structurally unemployed.
C) cyclically unemployed.
D) seasonally unemployed.
Answer: A
Diff: 2
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50) Fred recently lost his job as a teller at the bank. The bank explained that they were replacing Frank and others with ATM machines. Fred falls into a category of unemployment known as
A) frictional unemployment.
B) structural unemployment.
C) cyclical unemployment.
D) seasonal unemployment.
Answer: B
Diff: 3
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51) In 2014, some European countries were dealing with a recession. Workers who were laid off in those countries due to the economic downturn would be
A) frictionally unemployed.
B) structurally unemployed.
C) cyclically unemployed.
D) seasonally unemployed.
Answer: C
Diff: 3
Topic: 7.2 The Major Types of Unemployment
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52) Annie had a job as a human resource manager of a restaurant chain that went out of business due to a downturn in the economy. This is an example of
A) cyclical unemployment.
B) structural unemployment.
C) seasonal unemployment.
D) technological unemployment.
Answer: A
Diff: 2
Topic: 7.2 The Major Types of Unemployment
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53) The unemployment rate reported by the Bureau of Labor Statistics includes all of the following type of unemployment with the exception of
A) frictional unemployment.
B) structural unemployment.
C) hidden unemployment.
D) cyclical unemployment.
Answer: C
Diff: 1
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54) A person who is unemployed because of a mismatch between the person's skills and current employment requirements is experiencing
A) frictional unemployment.
B) structural unemployment.
C) cyclical unemployment.
D) seasonal unemployment.
Answer: B
Diff: 2
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

55) The estimate of the current natural rate of unemployment rate in the United States is approximately
A) 0 percent.
B) 0.5 percent.
C) 10 percent.
D) none of the above.
Answer: D
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

56) Which of the following best describes an economy with full employment?
A) "Everyone who is looking for a job will have one."
B) "No person is unemployed for whatever reason."
C) "Full employment occurs only when the economy has a zero percent unemployment rate."
D) "The level of unemployment that corresponds to the normal friction in the labor market."
Answer: D
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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57) Full employment does not necessarily mean that every adult has a job because
A) students and homemakers are always looking for work.
B) there are always some discouraged workers.
C) policy makers never want to achieve full employment.
D) there are transaction costs in finding a job in the labor market.
Answer: D
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

58) The natural rate of unemployment does NOT include which of the following?
A) cyclical unemployment
B) frictional unemployment
C) seasonal unemployment
D) all of the above
Answer: A
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

59) An unemployment rate of zero cannot be expected since
A) there are some people who do not want to work.
B) there will always be discouraged workers.
C) some portion of the labor force will always be between jobs.
D) aggregate demand can never create enough job vacancies.
Answer: C
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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60) Which of the following statements about full employment is correct?
I. Full employment means that the unemployment rate is less than 1/2 of 1 percent.
II. Full employment means that the transaction costs associated with getting a job are zero.
A) I only
B) II only
C) Both I and II
D) Neither I nor II
Answer: D
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

61) Full employment means that
A) everyone who wants a job has a job, although it may not be the job they really want.
B) everyone who wants a job has a job, and they have the job they most prefer.
C) taking seasonal fluctuations into account, only frictional and structural unemployment exist.
D) the sum of structural and cyclical unemployment is greater than frictional unemployment.
Answer: C
Diff: 2
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

62) Full employment is defined by the Council of Economic Advisers as
A) 4 percent.
B) every adult who wants to work has a job.
C) the unemployment rate associated with zero inflation.
D) the unemployment rate associated with the normal frictions in the labor market.
Answer: D
Diff: 2
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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63) The natural rate of unemployment when seasonally adjusted includes
A) frictional and structural unemployment but not cyclical.
B) frictional and cyclical unemployment but not structural.
C) frictional unemployment only.
D) cyclical and structural unemployment but not frictional.
Answer: A
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

64) In conditions of full employment
A) no one in or out of the labor force is unemployed.
B) the only unemployment results from a normal frictions and structural mismatches in the labor market.
C) the only unemployment results from cyclical swings in economic activity.
D) no one in the labor force is unemployed.
Answer: B
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

65) Full employment is not zero unemployment because
A) there are statistical errors when determining the unemployment rate that cannot be overcome.
B) there is "normal" friction in the economy made up of those workers who are between jobs and those new entrants to the labor force.
C) there are undocumented workers in the economy who are not counted by the Bureau of Labor Statistics.
D) government workers are not counted in the labor force.
Answer: B
Diff: 2
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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66) Currently, economists estimate that the natural rate of unemployment in the United States is about
A) 10 percent.
B) 2 percent.
C) 5 percent.
D) 0 percent.
Answer: C
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

67) Full employment is
A) zero unemployment.
B) when the unemployment level is reduced to the goal set by Congress.
C) the unemployment level when the normal friction in the economy is taken in account.
D) when all adults looking for work can find full time occupation.
Answer: C
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

68) The natural rate of unemployment is the rate of unemployment that
A) all workers and employers have fully adjusted to any changes in the economy.
B) occurs when all workers find work in the economy.
C) is an unrealistic goal set by policymakers.
D) occurs when employers find more than one job applicant for each job available.
Answer: A
Diff: 2
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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69) Full employment in the United States today
A) means a 100% employment rate.
B) means 0% unemployment for 6 months.
C) means about a 95% employment rate.
D) means that the cyclical unemployment rate is about 5%.
Answer: C
Diff: 2
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

70) The level of unemployment that is equal to the frictional and structural rate in the long run is sometimes referred to as
A) cyclical employment.
B) the natural rate of unemployment.
C) the total rate of unemployment.
D) the zero unemployment rate.
Answer: B
Diff: 2
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

71) When Joe, who is among the highest-paid workers in a field in which there are numerous job openings across the nation, recently became unemployed, his opportunity cost of job search is
A) average, so the length of his period of unemployment is likely to be long.
B) relatively high, so the length of his period of unemployment is likely to be short.
C) relatively low, so the length of his period of unemployment is likely to be long.
D) relatively high, so the length of his period of unemployment is likely to be long.
Answer: B
Diff: 1
Topic: 7.2 The Major Types of Unemployment
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72) Which one of these factors plays a role in determining the extent and duration of frictional unemployment?
A) the ease with which job seekers can obtain information about job openings
B) the degree to which the overall level of business activity fluctuates up and down
C) the extent to which government legislation requires firms to provide health insurance for employees
D) the education and skill levels of labor force participants
Answer: A
Diff: 2
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

73) Describe the major types of unemployment.
Answer: Frictional unemployment is the continuous flow of people from job to job. Seasonal unemployment refers to changes in employment related to seasonal-type of work, such as work at summer resorts or winter ski lodges. Structural unemployment refers to unemployment of workers over lengthy intervals resulting from skill mismatches of prospective employees' abilities and skills with requirements of employers, and from fewer jobs being offered by employers constrained by government regulations and labor market policies. Cyclical unemployment has to do with those unemployed due to a downturn in business activity.
Diff: 1
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
AACSB: Analytical thinking

74) What is meant by full employment? Why isn't the full employment rate zero? What causes frictional unemployment?
Answer: Full employment is the level of unemployment that corresponds to normal friction in the labor market. Since a dynamic economy will always experience changes in demand for goods and services, there will always be some frictional unemployment. Frictional unemployment refers to the unemployment resulting from the time people spend between jobs, looking for other work.
Diff: 3
Topic: 7.2 The Major Types of Unemployment
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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7.3 Inflation and Deflation

1) A major element of the concepts of *inflation* and *deflation* is
A) the idea that price changes are measured daily.
B) their dependence on average rather than individual prices.
C) the requirement that ALL prices must be moving in the same direction.
D) each household's willingness to report what they pay for goods and services each month.
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

2) A sustained decrease in the average of all prices of goods and services in the economy is known as
A) inflation.
B) disinflation.
C) deflation.
D) hyperinflation.
Answer: C
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

3) The statistical measure of a weighted average of prices of goods and services that firms produce and sell is known as
A) the inflation rate.
B) the consumer price index (CPI).
C) the producer price index (PPI).
D) the Gross Domestic Product (GDP) deflator.
Answer: C
Diff: 1
Topic: 7.3 Inflation and Deflation
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4) Inflation is best described as a situation in which
A) relative prices are changing.
B) some prices are rising faster than others.
C) relative prices are changing, but the purchasing power of the dollar is unchanged.
D) the average of all prices are on a sustained rise over a period of time.
Answer: D
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

5) Deflation is defined as a situation in which
A) the rate of inflation is below 2 percent.
B) the average of all prices of goods and services in an economy is falling.
C) the value of the dollar is rising relative to other currencies.
D) the Gross Domestic Product's growth rate is less for a given quarter than it was for the prior quarter.
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

6) Inflation is best defined as
A) a sustained increase in the price of ALL goods and services in an economy.
B) a relative price increase.
C) a sustained increase in the average of all prices of goods and services in an economy.
D) a sustained increase in the price of a single good or service.
Answer: C
Diff: 1
Topic: 7.3 Inflation and Deflation
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7) Deflation refers to a situation in which
A) the inflation rate decreases.
B) the average of all prices is falling.
C) there is a recession and inflation.
D) prices are not changing.
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

8) The rate of inflation and the purchasing power of money are
A) positively related.
B) totally unrelated.
C) inversely related.
D) randomly related.
Answer: C
Diff: 2
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

9) The faster the drop in the purchasing power of money, the faster the
A) drop in the inflation rate.
B) drop in the deflation rate.
C) increase in the deflation rate.
D) increase in the inflation rate.
Answer: D
Diff: 2
Topic: 7.3 Inflation and Deflation
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10) The value of your money income, in terms of buying goods and services, is referred to as your money's
A) staying power.
B) rigidity factor.
C) purchasing power.
D) transaction cost.
Answer: C
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

11) By definition, the purchasing power of money always drops when
A) inflation occurs.
B) deflation occurs.
C) the economy is experiencing full employment.
D) there is a presidential election year.
Answer: A
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

12) The nominal value of a good is
A) the good's value expressed in purchasing power terms.
B) the good's anticipated value one year from now.
C) the price of the good in today's dollars, minus an anticipated inflation premium.
D) the price of the good in today's dollars.
Answer: D
Diff: 1
Topic: 7.3 Inflation and Deflation
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13) The formula for computing a basic price index is
A) (cost of market basket today/cost of market basket in base year) × 100.
B) (cost of market basket in base year/100) × cost of market basket today.
C) (cost of market basket in base year/cost of market basket today) × 100.
D) (100/cost of market basket in base year) + cost of market basket today.
Answer: A
Diff: 2
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

14) If the current price of a market basket of goods is $850 and the base year price for the same market basket is $500, what is the value of the price index?
A) 140
B) 170
C) 120
D) 100
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Application of knowledge

15) Assume that the current price of a market basket of goods is $2,500 and the base year price of the same market basket is $1,340. The price index is
A) 53.6.
B) 40.0.
C) 138.3.
D) 186.6.
Answer: D
Diff: 1
Topic: 7.3 Inflation and Deflation
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Year Period	Current Widget Price	Base Widget Price
1	$0.75	$0.75
2	1.35	0.75
3	1.60	0.75
4	2.10	0.75

16) According to the above table, in Year 3, the price index for widgets is
A) 100.
B) 213.3.
C) 46.9.
D) 180.
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Application of knowledge

17) According to the above table, in the base period (Year 1), the price index is
A) 100.
B) 213.3.
C) 46.9.
D) 180.
Answer: A
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Application of knowledge

18) The Consumer Price Index measures
A) the average of raw material prices paid by producing firms.
B) the level of prices with respect to goods and services purchased by a typical consumer in urban areas.
C) the average of the prices of all goods produced in a country and goods imported from other countries.
D) hourly wage rates of manufacturing workers.
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
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19) Which of the following price indexes is designed to measure changes in the prices of goods and services purchased by a typical individual?
A) Producer Price Index
B) Gross Domestic Product (GDP) Deflator
C) Index of Leading Economic Indicators
D) Consumer Price Index
Answer: D
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

20) A price index shows
A) the current cost of a basket of goods.
B) the relative price of necessities.
C) the price of goods in the future.
D) the cost of today's goods expressed in terms of the cost of goods in a base year.
Answer: D
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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21) Assume that there was a 5 percent increase in the price of all goods in 2015; if the base year is 2014, then the price index in 2015 will be
A) 95.
B) 105.
C) 110.
D) 1100.
Answer: B
Diff: 1
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22) The statistical measure of the weighted average of prices of goods purchased by a typical individual is called the
A) Producer Price Index.
B) Gross Domestic Product (GDP) deflator.
C) Consumer Price Index.
D) Personal Consumption Expenditure Index.
Answer: C
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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23) The broadest indication of economy-wide inflation is captured by the
A) Consumer Price Index.
B) Gross Domestic Product (GDP) deflator.
C) Producer Price Index.
D) Personal Consumption Expenditure Index.
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

24) Which of the following measures gives the earliest warning of increasing inflation?
A) the Consumer Price Index
B) the Producer Price Index
C) the Personal Consumption Expenditure Index
D) All of these should signal the same short-run inflation.
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
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25) Last year the price of a dozen eggs was $1, and this year the price is $1.30. Which of the following does NOT express this price change accurately?
A) The price increased 30 percent.
B) The price increased by 30 cents.
C) If last year was the base year, the index number for this year would be 130.
D) If this year is the base year, the index number for last year would be 130.
Answer: D
Diff: 2
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Application of knowledge

26) Last year you purchased 20 CDs at $12 a piece, 10 shirts at $15 each, and 5 sweaters at $30 each (total spending equals $540). This year you buy 18 CDs at $15 each, 10 shirts at $16 each, and 6 sweaters at $36 each (total spending equals $640). If last year's index was 100, this year's index
A) is 119.6.
B) is 118.5.
C) is 83.6.
D) is 30.
Answer: B
Diff: 3
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

27) In computing a price index,
A) the most recent year is always set equal to 100.
B) both the quantities in the market basket and the prices change from year to year.
C) the quantities in the market basket stay the same while the prices differ.
D) the base year must be one for which the inflation rate was zero.
Answer: C
Diff: 2
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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28) The price index that measures the changes in prices of ALL goods and services produced by the economy is the
A) CPI.
B) PPI.
C) Gross Domestic Product (GDP) deflator.
D) Personal Consumption Expenditure Index.
Answer: C
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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29) The consumer price index (CPI) is a measure of inflation for
A) farmers.
B) an elderly couple recently retired to Yuma, Arizona.
C) Apple Computer.
D) a typical consumer of the market basket used to calculate the index.
Answer: D
Diff: 3
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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Market Basket	Quantity	2014 Price	2015 Price
CDs	10	$32	$24
Gasoline	200 gal	$2.00	$2.50

30) If 2014 is the base year, what is the price index for a market basket of goods for 2015 in the above table?
A) 97.3
B) 102.8
C) 128.0
D) Zero, since the price of CDs fell and the price of gasoline increased
Answer: B
Diff: 2
Topic: 7.3 Inflation and Deflation
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31) Which of the following is a measure of general inflation that is NOT based on a fixed market basket of goods and services?
A) consumer price index
B) producer price index
C) personal consumption expenditure index
D) medical price index
Answer: C
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

32) The relationship between the producer price index (PPI) and the consumer price index (CPI) is such that, in the short run
A) the CPI usually increases before the PPI.
B) the CPI and the PPI usually move simultaneously.
C) the PPI usually increases before the CPI.
D) the CPI and the PPI usually move in opposite directions.
Answer: C
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

33) If the Bureau of Labor Statistics changed the way it calculates the consumer price index (CPI) so as to take into account product quality changes and the changing mix of products and services purchased by the average family, the result would most likely
A) show a higher rate of inflation.
B) show a lower rate of inflation.
C) cause an increase in Social Security payments.
D) cause higher wage increases for union employees with contracts that specify automatic wage boosts when the CPI rises.
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
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34) Inflation refers to the situation when
A) the prices of necessities increase.
B) the average of all prices is increasing.
C) all prices rise by the same rate.
D) the rate at which prices are rising is rising.
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

35) Deflation is the situation when
A) the rate at which prices increase falls.
B) the average of all prices is declining.
C) the real rate of interest is negative.
D) some prices are increasing and some are declining.
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

36) Which of the following statements is NOT true about inflation?
A) Inflation is a sustained increase in the average prices of goods in the economy.
B) During an inflationary period, the prices of some goods will increase while the price of some goods will decrease.
C) When there is inflation, the purchasing power of a dollar decreases.
D) During an inflationary period, the prices of all goods will increase.
Answer: D
Diff: 1
Topic: 7.3 Inflation and Deflation
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37) The purchasing power of money increases when
A) the inflation rate increases.
B) there is inflation.
C) there is deflation.
D) there are more dollars in the economy.
Answer: C
Diff: 2
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

38) The value of money for buying goods and services is known as
A) inflation.
B) nomination.
C) nominal income.
D) purchasing power.
Answer: D
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

39) Which of the following statements is TRUE if your money income stays the same but the price of one good that you are buying goes up?
A) Your effective purchasing power falls.
B) Your nominal income has been decreased.
C) You will have to reduce the quantities you purchase of all goods.
D) Your real income has increased.
Answer: A
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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40) The greater the inflation rate, the
A) faster the decrease in the purchasing power of money.
B) slower the decrease in the purchasing power of money.
C) better it is to hold money as cash.
D) better it is to put money into savings accounts.
Answer: A
Diff: 2
Topic: 7.3 Inflation and Deflation
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41) An increase in the price of electricity, *ceteris paribus*, indicates that
A) the purchasing power of money is decreasing.
B) the purchasing power of money is increasing.
C) electricity is relatively more scarce than it was before.
D) inflation is increasing.
Answer: C
Diff: 2
Topic: 7.3 Inflation and Deflation
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42) The value of an item expressed in purchasing power that varies with the overall price level is known as
A) inflation.
B) deflation.
C) the nominal value.
D) the real value.
Answer: D
Diff: 1
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43) The value of an item expressed in today's dollars is known as
A) inflation.
B) deflation.
C) the nominal value.
D) the real value.
Answer: C
Diff: 1
Topic: 7.3 Inflation and Deflation
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44) Robert received a $100 gift certificate to a bookstore a year ago. The economy has been in an inflationary period for the last year. This gift certificate is
A) expressed in real terms and is worth more.
B) expressed in nominal terms and is worth less.
C) not expressed in either real or nominal terms since it is not money.
D) adjusted in terms of the CPI.
Answer: B
Diff: 2
Topic: 7.3 Inflation and Deflation
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45) A price index is the
A) cost of a market basket of goods today.
B) cost of a market basket of goods and services a year ago expressed as a percentage of the cost of the same market basket today.
C) cost of a market basket of goods and services today expressed as a percentage of the cost of the same market basket during a base year.
D) year that is chosen as the point of reference for comparison of prices in other years.
Answer: C
Diff: 1
Topic: 7.3 Inflation and Deflation
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46) In the base year the price index
A) will be between 1 and 100.
B) will always equal 100.
C) equals 100 times the cost of the market basket in the base year.
D) will equal the year.
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
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AACSB: Analytical thinking

47) The year that is chosen as the point of reference for comparison of prices in other years is known as the
A) base year.
B) price index.
C) purchasing power.
D) consumer price index.
Answer: A
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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48) Last year a pair of jeans had a price of $20 and this year the price is $25. Which of the following expresses this price change accurately?
A) If this year is the base year, the index number for last year would be 120.
B) If last year is the base year, the index number for this year would be 120.
C) If this year is the base year, the index number for last year would be 80.
D) If last year is the base year, the index number for this year would be 80.
Answer: C
Diff: 2
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49) Last year you purchased 20 shirts at $15 apiece, 30 CDs at $12 each, and 5 sweaters at $25 apiece. This year you buy 20 shirts at $20 apiece, 30 CDs at $12 apiece, and 5 sweaters at $20 a apiece. If last year's index was 100, this year's index is
A) 91.3.
B) 102.0.
C) 109.5.
D) 9.5.
Answer: C
Diff: 3
Topic: 7.3 Inflation and Deflation
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2005 Market Basket Commodity	Quantity	2005 Price	2015 Price
A	50	3	4
B	75	2	3

50) Refer to the above table. You are given information on Jasmin's consumption for 2005 and 2015. Using 2005 as the base year, compute the price index for 2015. The index equals
A) 1.5.
B) 70.588.
C) 141.667.
D) 107.143.
Answer: C
Diff: 3
Topic: 7.3 Inflation and Deflation
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2005 Market Basket Commodity	Quantity	2005 Price	2015 Price
A	40	5	7
B	30	6	8

51) Refer to the above table. You are given information on Jasmin's consumption for 2005 and 2015. Using 2005 as the base year compute the price index for 2015. The index equals
A) 0.75.
B) 73.007.
C) 87.50.
D) 136.842.
Answer: D
Diff: 3
Topic: 7.3 Inflation and Deflation
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2005 Market Basket Commodity	Quantity	2005 Price	2015 Price
A	20	4	5
B	40	3	6

52) Refer to the above table. You are given information on Jasmin's consumption for 2005 and 2015. Using 2005 as the base year compute the price index for 2015. The index equals
A) 170.
B) 58.823.
C) 0.5823.
D) 0.17.
Answer: A
Diff: 3
Topic: 7.3 Inflation and Deflation
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2005 Market Basket Commodity	Quantity	2005 Price	2015 Price
A	30	7	9
B	80	6	18

53) Refer to the above table. You are given information on Jasmin's consumption for 2005 and 2015. Using 2005 as the base year compute the price index for 2015. The index equals
A) 40.35.
B) 247.826.
C) 0.4035.
D) 0.2478.
Answer: B
Diff: 3
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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54) If all prices in the economy go up from one year to the next, the CPI index, using the previous year as the base would
A) be less than 100.
B) be greater than 100.
C) not be influenced since quantities have remained unchanged.
D) not be determined since enough information is given.
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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55) When computing a price index, the base year is
A) the earliest year for which data are available.
B) the year that is chosen as the point of reference for comparison of prices with other years.
C) the most recent year for which data are available.
D) the most recent year in which the inflation rate was close to zero.
Answer: B
Diff: 1
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56) The GDP deflator is
A) an index that utilizes a consumer's market basket of goods in calculating the inflation rate.
B) the most general indicator of inflation since it measures changes in the prices of all goods and services in the economy.
C) an index used to calculate inflation at the wholesale level.
D) the least used index because it is so costly to calculate.
Answer: B
Diff: 2
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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57) The Consumer Price Index (CPI) is a
A) statistical measure of a weighted average of prices of a specific set of goods and services purchased by consumers in urban areas.
B) statistical measure of a weighted average of prices of commodities that firms produce and sell.
C) price index measuring the changes in prices of all new goods and services produced in the economy.
D) statistical measure of average prices using annually updated weights based on surveys of consumer spending.
Answer: A
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

58) The Producer Price Index (PPI) is a
A) statistical measure of a weighted average of prices of a specific set of goods and services purchased by wage earners in urban areas.
B) statistical measure of a weighted average of prices of commodities that firms produce and sell.
C) price index measuring the changes in prices of all new goods and services produced in the economy.
D) price index that tracks the price levee of commodities that firms purchase from other firms.
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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59) The Personal Consumption Expenditure Index (PCE) is a
A) statistical measure of a weighted average of prices of a specific set of goods and services purchased by wage earners in urban areas.
B) statistical measure of a weighted average of prices of commodities that firms produce and sell.
C) price index measuring the changes in prices of all new goods and services produced in the economy.
D) statistical measure of average prices using annually updated weights based on surveys of consumer spending.
Answer: D
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

60) The GDP deflator is a
A) statistical measure of a weighted average of prices of a specific set of goods and services purchased by wage earners in urban areas.
B) statistical measure of a weighted average of prices of commodities that firms produce and sell.
C) price index measuring the changes in prices of all new goods and services produced in the economy.
D) price index that tracks the price level of commodities that firms purchase from other firms.
Answer: C
Diff: 1
Topic: 7.3 Inflation and Deflation
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61) Suppose medical care makes up 5 percent of the CPI index, and that prices rise in the medical care area faster than in the rest of the economy. An elderly couple spends 15 percent of their income on medical care. For this couple, the CPI
A) understates the inflation rate because of the importance of medical care for this family.
B) overstates the inflation rate because this family is not typical of the country as a whole.
C) understates the inflation rate because the CPI always understates inflation.
D) is a good measure of inflation since the bias inherent in the CPI is offset by the increased emphasis on health care for this family.
Answer: A
Diff: 3
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62) For the CPI. the value of the index in the base year
A) always equals 100.
B) depends upon price and quantity that are constantly changing.
C) is always greater than 100.
D) depends upon what prices did the year before.
Answer: A
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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63) The index that is not based on a fixed market basket of goods and services is the
A) CPI.
B) PPI.
C) Wholesale Price Index.
D) GDP Price Deflator.
Answer: D
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

64) The indices that are based on a fixed market basket of goods and services are
A) CPI and GDP deflator.
B) PPI and GDP deflator.
C) CPI and PPI.
D) CPI, PPI and GDP deflator.
Answer: C
Diff: 1
Topic: 7.3 Inflation and Deflation
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65) The CPI tends to overstate the true inflation rate because
A) we cannot know what the true inflation rate is.
B) it fails to consider the effects of new products in the marketplace.
C) the market basket actually selected is inappropriate.
D) the market basket fails to weigh housing costs sufficiently.
Answer: B
Diff: 2
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66) Which of the following is NOT a criticism of the CPI?
A) The CPI does not account for the way consumer substitute less expensive items for higher priced items.
B) The CPI ignores changes in consumption patterns that occur between years in which it revises the index.
C) The CPI ignores successful new products until long after they have been introduced.
D) The CPI ignores the changes of prices of goods that firms produce and sell to each other.
Answer: D
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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67) Throughout U.S. history, inflation has been highest
A) right after a recession.
B) right before a recession.
C) during periods of war.
D) during Republican administrations.
Answer: C
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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	Year 1 Prices	Year 2 Prices
5 textbooks	$75/book	$80/book
100 pens	$2/pen	$2.50/pen

68) Using the above table, the following is the output of a two-product economy. The price index in this economy in Year 2, assuming Year 1 is the base year, is
A) 113.0.
B) 88.5.
C) 107.1.
D) 106.7.
Answer: A
Diff: 2
Topic: 7.3 Inflation and Deflation
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69) Inflation can be defined as
A) an increase in the purchasing power of money.
B) a decrease in the purchasing power of money.
C) no change in the purchasing power of money.
D) an increase in real income.
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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70) Which of the following is NOT a measure of the general level of prices?
A) Consumer Price Index
B) Producer Price Index
C) GDP Deflator
D) Personal Sales Deflator Index
Answer: D
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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71) An increase in inflation will cause a reduction in which of the following?
A) the nominal value of money
B) the Producer Price Index
C) the GDP deflator
D) the real value of money
Answer: D
Diff: 1
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72) Which one of the following is TRUE?
A) Inflation increases the real value of money.
B) In the base year, the value of a price index is 100.
C) The consumer price index measures changes in the average income of consumers.
D) The market basket defined for the consumer price index contains more items than does the market basket defined for the GDP deflator.
Answer: B
Diff: 2
Topic: 7.3 Inflation and Deflation
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73) Economists agree that the structure of the Consumer Price Index has some problems that limit its usefulness as a reliable measure of inflation. What is one of these drawbacks?
A) It is based on the faulty assumption that each consumer buys only one unit of each item.
B) It is based on the faulty assumption that consumption choices are not influenced by income levels.
C) It ignores changes in consumption patterns brought about by changes in the relative prices of consumer goods.
D) It is based on a market basket of mail-order items and does not include the goods that consumers typically purchase.
Answer: C
Diff: 3
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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74) Which government agency compiles the consumer price index?
A) the Congressional Budget Office
B) the Government Accounting Office
C) the Bureau of Labor Statistics
D) It is not compiled by a government agency, but rather by an independent research institution called the Conference Board.
Answer: C
Diff: 1
Topic: 7.3 Inflation and Deflation
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75) Which is the broadest price index reported in the United States?
A) the CPI-U
B) the GDP deflator
C) the consumer price index
D) the producer price index
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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76) The GDP deflator is not a fixed-quantity price index, but the CPI is. What is the significance of this fact?
A) The GDP deflator does not include enough items in its market basket.
B) A base year cannot be defined for the GDP deflator.
C) The GDP deflator reflects not only changes in prices, but also changes in consumption patterns as consumers substitute between goods.
D) The GDP deflator overstates the true rate of inflation, whereas the CPI understates it.
Answer: C
Diff: 3
Topic: 7.3 Inflation and Deflation
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77) How has the pattern of movements in the U.S. price level changed since World War II?
A) Periods of inflation have largely been eliminated.
B) Periods of deflation have largely been eliminated.
C) The annual rate of inflation has never risen above 3 percent.
D) The price level has become more volatile.
Answer: B
Diff: 2
Topic: 7.3 Inflation and Deflation
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78) The price index for any designated base year must always equal
A) the CPI for that year.
B) 0.
C) 100.
D) one divided by the nominal price change for the year.
Answer: C
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

79) The government agency which has been given the task of calculating the Consumer Price Index (CPI) is
A) the Bureau of Economic Research.
B) the Department of State.
C) the Council of Economic Advisors.
D) the Bureau of Labor Statistics.
Answer: D
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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80) The purchasing power of the dollar
A) increases as the price of basic goods and services increases.
B) is the amount of goods and services that can be purchased with the dollar.
C) has been rising in the United States since 1945.
D) has remained unchanged in the last 20 years.
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
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Commodity	Market Basket Quantity	2010 Price per Unit	Cost of Market Basket in 2010	2015 Price per Unit	Cost of Market Basket in 2015
Milk	10 gallon	2.00	20.00	2.50	25.00
Eggs	10 dozen	2.00	20.00	3.00	30.00
Bread	10 loaves	2.00	20.00	3.00	30.00

81) In the table shown above, the total cost of the market basket in 2010 was
A) $6.00.
B) $8.50.
C) $60.00.
D) $85.00.
Answer: C
Diff: 2
Topic: 7.3 Inflation and Deflation
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82) In the table shown above, the total cost of the market basket in 2015 was
A) $6.00.
B) $8.50.
C) $60.00.
D) $85.00.
Answer: D
Diff: 2
Topic: 7.3 Inflation and Deflation
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AACSB: Application of knowledge

83) If 2010 is the base year in the table shown above, what is the price index for the year 2010?
A) 100.0
B) 121.3
C) 147.1
D) 141.7
Answer: A
Diff: 2
Topic: 7.3 Inflation and Deflation
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84) If 2010 is the base year in the table shown above, what is the price index for the year 2015?
A) 100.0
B) 114.7
C) 147.1
D) 141.7
Answer: D
Diff: 2
Topic: 7.3 Inflation and Deflation
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85) Considering the data in the table shown above and 2010 as the base year, what is the inflation rate between years 2010 and 2015?
A) 0.0 percent
B) 41.7 percent
C) 17.1 percent
D) 3.4 percent
Answer: B
Diff: 3
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Application of knowledge

A Two-Good Market

Item	Market Basket Quantity	2010 Price per Unit	2015 Price per Unit
Light Bulbs	500	$1.00	$2.00
Volleyballs	1,000	$5.00	$7.00

86) In the table shown above, assuming that the market basket cost of light bulbs and volleyballs in the base year was $4500, what would the price index for this two-good market equal in the year 2010?
A) 104.86
B) 100.00
C) 112.52
D) 122.22
Answer: D
Diff: 3
Topic: 7.3 Inflation and Deflation
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87) Considering the data from the table shown above, assuming that the market basket cost of light bulbs and volleyballs in the base year was $4500, what would be the price index for the year 2015?
A) 177.78
B) 156.30
C) 100.00
D) 92.70
Answer: A
Diff: 3
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Application of knowledge

88) In the United States, most often the _____ changes first, and the _____ follows.
A) CPI; PPI
B) GDP deflator; CPI
C) PPI; CPI
D) PCE; CPI
Answer: C
Diff: 2
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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89) The term "market basket" means a
A) collection of goods that can fit into an average shopping cart.
B) collection of goods that changes every year and is defined by Congress.
C) collection of goods that is used by a typical family.
D) collection of goods that is purchased during a holiday season.
Answer: C
Diff: 1
Topic: 7.3 Inflation and Deflation
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90) The market basket cost $300 in 2015, while it cost $250 in the base year. Therefore, the price index for 2015 is
A) 83.
B) 120.
C) 80.
D) cannot be calculated because the inflation rate is not given.
Answer: B
Diff: 2
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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91) You receive a five percent raise in your hourly wage. The inflation rate is four percent. Your purchasing power has
A) increased.
B) decreased.
C) stayed the same.
D) is indeterminate.
Answer: A
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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92) You receive a 5 percent raise in your salary. The inflation rate is 6 percent. The purchasing power of your salary has
A) increased by 1 percent.
B) decreased by 1 percent.
C) increased by 11 percent.
D) decreased by 11 percent.
Answer: B
Diff: 1
Topic: 7.3 Inflation and Deflation
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93) In 2015, the price for a market basket of consumer goods is $1,600. In the base year, the cost of the identical market basket was $1,000. The price index in this case is
A) 16.0.
B) 130.0.
C) 200.0.
D) 160.0.
Answer: D
Diff: 2
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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94) In 2015, the price for a market basket of consumer goods is $800. In the base year, the cost of the identical market basket was $1,000. The price index in this case is
A) 80.0.
B) 130.0.
C) 800.0.
D) 180.0.
Answer: A
Diff: 3
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Application of knowledge

95) According to your text, during the 2000s, the inflation rate was in which range of percentages?
A) 0-5%
B) 5-10%
C) 10-15%
D) 15-20%
Answer: A
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

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96) How are inflation and the purchasing power of money related?
Answer: Inflation is the situation in which the average price of all goods and services is rising. The purchasing power of money is the value of money for buying goods and services. The faster the inflation rate the greater the drop in the purchasing power of money.
Diff: 1
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

97) In what ways is the consumer price index flawed?
Answer: There are at least three problems with the CPI. First, it is a fixed-quantity index, which means that it doesn't take into consideration the way people change their purchases of goods and services when there are relative price changes. Second, it fails to account for quality changes in goods. Third, it ignores the introduction of new goods.
Diff: 3
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

98) What is a price index? How do the CPI, the PPI, the PCE Index and the GDP deflator differ?
Answer: A price index is the cost of today's market basket of goods and services expressed as a percentage of the cost of the same market basket during a base year. The CPI, PPI, and GDP deflator differ in the goods and services they cover. The CPI measures price changes for goods and services purchased by consumers. The PPI measures price changes for goods and services charged by firms. The PCE Index measures a weighted average of prices of consumer goods and services based on continuously updated survey's of consumers' purchases. The GDP deflator measures changes in prices of everything produced in the economy.
Diff: 2
Topic: 7.3 Inflation and Deflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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7.4 Anticipated versus Unanticipated Inflation

1) Typically, nominal interest rates and anticipated inflation rates
A) move in opposite directions.
B) are not related.
C) move in the same direction.
D) are such that the nominal rate is one-half the anticipated rate.
Answer: C
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

2) Unanticipated positive inflation will create
A) losses for creditors and gains for debtors.
B) losses for both creditors and debtors.
C) gains for both creditors and debtors.
D) gains for creditors and losses for debtors.
Answer: A
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

3) Most of the problems caused by inflation are caused by the fact that
A) there are no ways available for people to protect themselves against inflation.
B) anticipated inflation induces people to protect themselves against inflation.
C) inflation causes the purchasing power of the dollar to increase.
D) the inflation is often unanticipated and therefore comes as a surprise to individuals in the economy.
Answer: D
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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4) Fully anticipated inflation occurs when
A) the actual inflation rate equals the anticipated inflation rate.
B) the actual inflation rate is less than the anticipated inflation rate.
C) the inflation rate is zero.
D) the anticipated inflation rate and the unanticipated inflation rate are equal.
Answer: A
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

5) The real rate of interest is the
A) nominal rate of interest minus the anticipated rate of inflation.
B) current rate actually paid by the borrower.
C) difference between the bank's lending and savings rates.
D) current rate which the government pays on its debt.
Answer: A
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

6) If the rate of inflation is 5 percent and the real interest rate is 3 percent, the nominal interest rate should be
A) 1 percent.
B) 2 percent.
C) 8 percent.
D) -2 percent.
Answer: C
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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7) Under which one of the following situations would you be better off?
A) You have $10,000 in your savings account paying 5 percent per year and unanticipated inflation is 8 percent per year.
B) You have paid $500 for a $1,000 U.S. savings bond that matures in 10 years and unanticipated inflation is 10 percent per year.
C) You lend a friend $1,000 at 6 percent to be repaid in one year and unanticipated inflation is 7 percent during the year.
D) You borrowed $2,500 at 7 percent to pay for this year's college expenses and unanticipated inflation is 12 percent during the year.
Answer: D
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

8) Suppose that you borrow $5,000 from the bank to purchase some land and you agree to pay 9 percent interest on the loan. If the loan must be repaid in 12 months and the inflation rate is 13 percent during the year, then
A) you will repay the bank with dollars with more purchasing power than you initially borrowed.
B) you will repay the bank with fewer dollars than the bank initially loaned you.
C) you will repay the bank with dollars with less purchasing power than it initially loaned you.
D) the bank will receive fewer dollars, because of inflation, than it had initially expected to receive.
Answer: C
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

9) The real rate of interest is defined as
A) zero.
B) the nominal rate of interest.
C) the nominal rate of interest minus the anticipated inflation rate.
D) the nominal rate of interest plus the anticipated inflation rate.
Answer: C
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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10) The annual rate of inflation averaged 2 percent during the past decade, but borrowers and lenders anticipate that the price level will rise at a rate of 3 percent next year. The current nominal interest rate is 7 percent. The real rate of interest is
A) 10 percent.
B) 9 percent.
C) 5 percent.
D) 4 percent.
Answer: D
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Application of knowledge

11) Assume you borrow funds to buy a new car at 10 percent interest and you think that the economy-wide rate of inflation over the life of the loan will be 8 percent. If you are correct in your assumption, your real rate of interest on the car loan will be
A) 2 percent.
B) 8 percent.
C) 10 percent.
D) 18 percent.
Answer: A
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Application of knowledge

12) Who stands to gain as a result of unanticipated inflation?
A) creditors
B) debtors
C) persons living on a fixed income
D) retired individuals
Answer: B
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
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13) During a period of unanticipated inflation, the group that is most likely to benefit is
A) debtors.
B) savers.
C) creditors.
D) retired individuals.
Answer: A
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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14) When the unanticipated inflation rate is zero
A) creditors gain at the expense of debtors.
B) debtors gain at the expense of creditors.
C) neither creditors not debtors gain or lose.
D) both creditors and debtors lose at the expense of the government.
Answer: C
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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15) The cost of inflation to society includes
I. The opportunity costs of resources used by people to protect themselves against inflation
II. The costs associated with recalculating prices
A) I only
B) II only
C) Both I and II
D) Neither I nor II
Answer: C
Diff: 3
Topic: 7.4 Anticipated versus Unanticipated Inflation
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16) Inflation can cause a misallocation of resources because
A) inflation doesn't proceed evenly which means that people have a difficult time determining when a price change signals a change in relative prices.
B) firms have to change their price labels at unusual times.
C) the nominal rate of inflation doesn't equal the real rate of inflation.
D) people are encouraged to borrow too much.
Answer: A
Diff: 3
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

17) An unexpected *reduction* in inflation would tend to benefit which of the following?
A) creditors
B) debtors
C) creditors and debtors
D) neither creditors nor debtors
Answer: A
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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18) For most people, the problems of inflation are caused by the fact that
A) the inflation is unanticipated.
B) the inflation is anticipated.
C) the inflation rate causes the purchasing power of money to increase.
D) all prices change so there is no way to protect themselves against the decline in their wealth.
Answer: A
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
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19) Unanticipated inflation occurs when
A) everyone knows perfectly the true rate of inflation.
B) the actual inflation rate differs from the anticipated inflation rate.
C) the inflation rate is zero.
D) there is no change in the purchasing power of money.
Answer: B
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

20) Suppose the actual inflation rate is less than the anticipated inflation rate. Given this information, we know with certainty that the real rate of interest
A) is negative.
B) is more than the nominal rate of interest.
C) equals the nominal rate of interest.
D) none of the above (i.e., more information is needed to answer this question).
Answer: D
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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21) The nominal rate of interest is
A) CPI minus an inflationary premium.
B) PPI minus an inflationary premium.
C) the market rate of interest expressed in today's dollars.
D) the real rate of interest minus the anticipated rate of inflation.
Answer: C
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
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22) The real rate of interest is
A) the nominal rate of interest divided by the anticipated rate of inflation.
B) negative if the anticipated rate of inflation is zero.
C) the market rate of interest expressed in today's dollars.
D) the nominal rate of interest minus the anticipated rate of inflation.
Answer: D
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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23) With respect to the interest rate, the inflationary premium
A) is added to the nominal rate of interest to obtain the real rate of interest.
B) is the interest rate expressed in today's dollars.
C) covers anticipated depreciation in purchasing power.
D) is derived from the COLA.
Answer: C
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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24) The price level has been rising 5 percent a year for 10 years and is expected to continue to do so. The nominal rate of interest is 6 percent. The real rate of interest is
A) 11 percent.
B) 1 percent.
C) 10 percent.
D) -1 percent.
Answer: B
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
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25) The inflation rate has been 4 percent for 10 years, and the nominal interest rate has been 8 percent during this same time period. Suddenly, the public anticipates that the inflation rate will be 8 percent this coming year. The real rate of interest for the coming year is
A) 0 percent.
B) 2 percent.
C) 4 percent.
D) 6 percent.
Answer: A
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Application of knowledge

26) The nominal rate of interest is
A) the interest rate observed in today's market.
B) the interest rate observed in the market minus the inflation premium.
C) not influenced by inflation.
D) a value that depends upon the stock market.
Answer: A
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

27) The real rate of interest is
A) the interest rate observed in the market.
B) the interest rate observed in the market minus the anticipated inflation rate.
C) not influenced by inflation.
D) a value that depends upon the stock market.
Answer: B
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
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28) The real rate of interest equals 5% and the expected rate of inflation equals 2%. The nominal rate of interest equals
A) 2%.
B) 3%.
C) 5%.
D) 7%.
Answer: D
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

29) The real rate of interest equals 8%, and the expected rate of inflation equals 2%. The nominal rate of interest is
A) 2%.
B) 6%.
C) 8%.
D) 10%.
Answer: D
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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30) Debtors gain and creditors lose when
A) the anticipated rate of inflation is greater than the actual rate of inflation.
B) the anticipated rate of inflation is less than the actual rate of inflation.
C) the anticipated rate of inflation is the same as the unanticipated rate of inflation.
D) the unanticipated rate of inflation is zero.
Answer: B
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
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31) The menu cost of inflation involves
A) the mistakes producers make in adjusting prices.
B) the mistake people make when they do not know the actual rate of inflation.
C) cost-of-living adjustments.
D) the costs associated with changing price lists.
Answer: D
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

32) Unanticipated positive inflation
A) hurts everyone.
B) hurts creditors.
C) hurts debtors.
D) benefits banks.
Answer: B
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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33) A COLA is
A) unanticipated positive inflation.
B) unanticipated negative inflation.
C) the cost associated with recalculating prices and printing new price lists when there is inflation.
D) an automatic increase in wages that takes into account increases in the price level.
Answer: D
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
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34) A clause in a contract that automatically increases wages to account for increases in the price level is
A) the GDP deflation.
B) the PCE index.
C) a COLA.
D) the real rate of interest.
Answer: C
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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35) The purpose of COLAs is to protect
A) lenders.
B) borrowers.
C) workers.
D) businesses.
Answer: C
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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36) Which one of the following is TRUE?
A) The nominal rate of interest is the real rate plus the anticipated rate of inflation.
B) The real rate of interest is the nominal rate plus the anticipated rate of inflation.
C) Increases in anticipated inflation increase the real interest rate.
D) Increases in the CPI increase the real interest rate.
Answer: A
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
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37) The real rate of interest can be defined as the
A) nominal interest rate less the anticipated rate of inflation.
B) anticipated rate of inflation less the nominal interest rate.
C) the market rate of interest expressed in today's dollars.
D) nominal rate of interest less the unanticipated rate of inflation.
Answer: A
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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38) Empirical evidence shows that the nominal interest rate typically rises at the same time the inflation rate increases. What does this suggest?
A) The real rate of interest is zero.
B) Increases in the current inflation rate lead borrowers and lenders to expect that inflation in the future will be higher than previously thought.
C) Interest rate changes are the main component of the CPI.
D) Interest rate changes are the main component of the GDP deflator.
Answer: B
Diff: 3
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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39) Which one of the following would benefit financially from unanticipated inflation?
A) a borrower whose loan has a fixed nominal interest rate
B) a borrower with an adjustable rate mortgage
C) a bank that has made loans at a fixed nominal interest rate
D) a firm whose workers are covered by a COLA agreement
Answer: A
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
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40) Suppose the rate of inflation unexpectedly decreases from 7% to 4%. Which one of the following would most likely benefit from this unexpected reduction in the rate of inflation?
A) creditors.
B) a borrower whose loan has a fixed nominal interest rate.
C) debtors.
D) workers who are covered by a COLA agreement.
Answer: A
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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41) Unanticipated inflation benefits
A) people or businesses who owe funds.
B) people or businesses who lend funds.
C) people who live on a fixed income.
D) people with CDs (certificates of deposits) in the bank.
Answer: A
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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42) Who is likely to be helped by unanticipated inflation?
A) lenders
B) borrowers
C) all consumers
D) all producers
Answer: B
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
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43) Why is there a resource cost associated with inflation?
A) because unemployment increases when there is inflation
B) because most workers end up working fewer hours during periods of inflation
C) because consumers, workers, and firms devote resources to protecting themselves from the financial costs of inflation
D) because the existence of inflation discourages people from placing their savings in interest-bearing accounts, where it is needed to fund capital investment
Answer: C
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

44) If a bank advertises 3 percent interest for a checking account and the anticipated rate of inflation is 3.5 percent
A) the real rate of interest earned on the account is 0.5 percent.
B) the real rate of interest earned on the account is -0.5 percent.
C) the real rate of interest earned on the account is 6.5 percent.
D) the real rate of interest earned on the account is 3.25 percent.
Answer: B
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

45) How much should a bank charge for a loan, if the anticipated inflation rate is 4 percent, and the bank wants to earn 3 percent on this $1,000,000 loan?
A) $30,000
B) $40,000
C) 7 percent
D) 1 percent
Answer: C
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
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46) If your income rises at 5 percent and inflation has risen at 2 percent, then the purchasing power of your income has
A) eroded.
B) stayed the same.
C) fallen, but will increase due to indexing.
D) increased.
Answer: D
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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47) If you anticipate that the inflation rate is going to rise from three percent to 10 percent next year, you should
A) save your funds at a fixed rate of interest.
B) borrow funds at a fixed rate of interest.
C) keep your funds in your sock drawer.
D) wait to buy a house until next year.
Answer: B
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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48) The real interest rate is
A) the nominal interest rate plus the anticipated inflation rate.
B) the nominal interest rate minus the anticipated inflation rate.
C) the nominal interest rate plus a COLA.
D) the nominal interest rate plus the GDP deflator.
Answer: B
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
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49) If the nominal interest rate is 4 percent and the anticipated inflation rate is 6 percent, then
A) the real interest rate is -10 percent.
B) the real interest rate is 10 percent.
C) the real interest rate is -2 percent.
D) the real interest rate is 2 percent.
Answer: C
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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50) During an unanticipated inflation
A) creditors are helped and debtors are hurt.
B) creditors are hurt and debtors are helped.
C) both creditors and debtors are hurt.
D) both creditors and debtors are helped.
Answer: B
Diff: 1
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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51) An automatic increase in a wage rate found in some contracts is known as a
A) change of labor agreement.
B) cost of labor arrangement.
C) cost of living adjustment.
D) charge for living amendment.
Answer: C
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
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52) How is inflation related to interest rates?
Answer: People base their decisions on borrowing, lending, and investing on the basis of the real interest rate. If there is anticipated inflation, the nominal rate of interest will equal the real rate of interest plus the anticipated inflation rate. So, interest rates vary directly with anticipated inflation. Unanticipated inflation leads to a real interest rate different from what people thought, and the decisions people made turn out to be mistaken.
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
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53) What are the costs to society of inflation? Who is harmed by inflation and who benefits?
Answer: The resources used by people to protect themselves against inflation is the major cost of inflation to society as a whole. There is resource misallocation due to people making decisions based on faulty information about the true rate of inflation. In general, creditors are harmed by unanticipated inflation and debtors benefit.
Diff: 2
Topic: 7.4 Anticipated versus Unanticipated Inflation
Learning Outcome: Macro-13: Discuss the key measures, theories, and effects of inflation and deflation
AACSB: Analytical thinking

7.5 Changing Inflation and Unemployment: Business Fluctuations

1) The term "business fluctuations" refers to
A) changes in overall business activity, as evidenced by changes in national income, employment, and the price level.
B) changes in the general price level from inflation to deflation, or vice versa.
C) changes in the full employment level of economic activity.
D) changes in the value of the dollar.
Answer: A
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

2) In sequential order, the four phases of the business cycle are
A) trough, peak, expansion, contraction.
B) peak, contraction, trough, expansion.
C) expansion, contraction, peak, trough.
D) contraction, trough, peak, expansion.
Answer: B
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

3) The peak phase of the business cycle represents
A) a temporary maximum output level of Gross Domestic Product (GDP).
B) an increase in foreign investment.
C) a labor surplus.
D) falling prices.
Answer: A
Diff: 2
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
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4) When economy-wide business activities are increasing, they are referred to as
A) contractions.
B) expansions.
C) anti-cycles.
D) corrections.
Answer: B
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

5) A recession may be defined as
A) a period during which the rate of growth of business activity is consistently less than its long-term trend.
B) an increase in real economic output from one period to the next.
C) no change in real economic output over a period of time.
D) no change in the dollar (money) value of economic output over a period of time.
Answer: A
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

6) All of the following are signals of a recession EXCEPT
A) a cyclical reduction in employment of labor.
B) a slight reduction in a currently high rate of growth in economic activity.
C) increasing unemployment.
D) a falling level of economic activity.
Answer: B
Diff: 2
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

7) An economy recovering from a recession moves
A) up from its trough to a period of expansion.
B) up from its peak to a period of expansion.
C) down from its trough to a period of depression.
D) down from its peak to a period of expansion.
Answer: A
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
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8) During a recession
A) incomes rise and employment decreases.
B) incomes fall and unemployment increases.
C) incomes fall and unemployment falls.
D) incomes rise and unemployment increases.
Answer: B
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

9) When economy-wide business fluctuations are negative, they are referred to as
A) contractions/recessions.
B) booms.
C) expansions.
D) peaks.
Answer: A
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

10) Contractions are characterized by
A) increases in the rate of growth of economic activity.
B) an upward movement toward a peak in economic activity.
C) a downward movement toward a trough in economic activity.
D) a long period in which no cycles are observed in economic activity.
Answer: C
Diff: 2
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

11) The business cycle phase that must come before the peak is a(n)
A) trough.
B) expansion.
C) recession.
D) contraction.
Answer: B
Diff: 1
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12) When, over a sustained period of time, the growth of aggregate business activity falls below what is considered the normal growth rate, the economy necessarily experiences
A) inflation.
B) deflation.
C) an expansion.
D) a recession.
Answer: D
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

13) A period of time in which the overall business activity is rising at a rapid rate is known as
A) inflation.
B) hyperinflation.
C) an expansion.
D) a contraction.
Answer: C
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

14) The official dating of recessions is done by
A) the President.
B) the Congress.
C) the National Bureau of Economic Research.
D) the Council of Economic Advisors.
Answer: C
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

15) An extremely severe recession is known as a
A) trough.
B) peak.
C) contraction.
D) depression.
Answer: D
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
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16) A period of time in which the overall pace of business activity is falling is known as
A) inflation.
B) deflation.
C) an expansion.
D) a contraction.
Answer: D
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

17) A period in which the level of business is consistently less than its long-term trend is known as
A) depression.
B) recession.
C) business cycle.
D) growth trend.
Answer: B
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

18) A period of time in which the overall pace of business activity is rising is known as
A) inflation.
B) deflation.
C) an expansion.
D) a contraction.
Answer: C
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

19) The official dating of recessions is done by
A) the Council of Economic Advisors.
B) the National Bureau of Economic Research.
C) the Government Accounting Office.
D) the Secretary of the Treasury.
Answer: B
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
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20) The long-run trend in business activity is
A) downward.
B) constant.
C) upward.
D) such that it cannot be described as a trend.
Answer: C
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

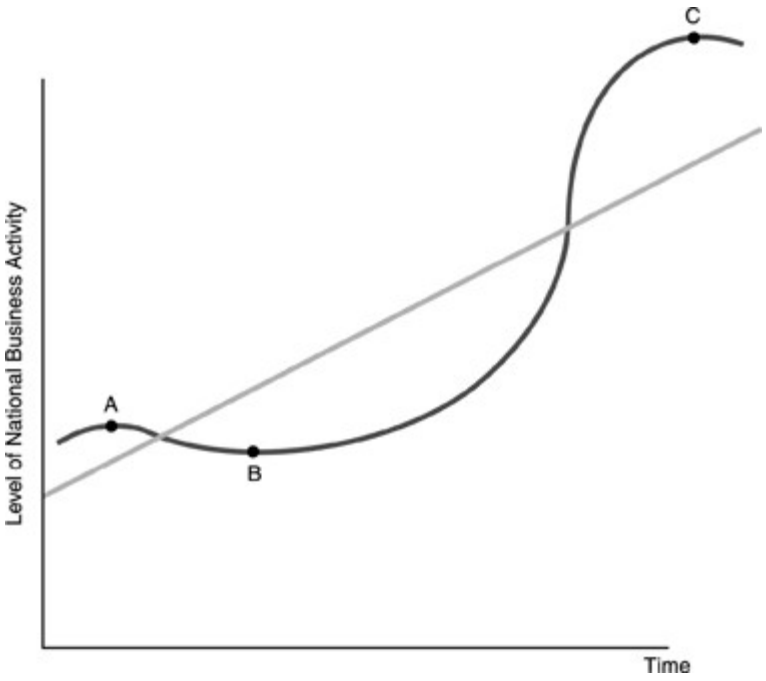
21) Business fluctuations
A) influence unemployment but not inflation.
B) influence inflation but not unemployment.
C) can influence inflation and unemployment.
D) have no influence on inflation and unemployment.
Answer: C
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

22) Which of the following would be considered an external shock?
A) a decline in tax revenues during a recession
B) a recession
C) a depression
D) a war
Answer: D
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

23) Which of the following is a TRUE statement?
A) All recessions are due to external shocks.
B) Ultimately, no recession has been due to an external shock.
C) There have been recessions that cannot be explained by external shocks.
D) All recessions and all expansions are due to external shocks.
Answer: C
Diff: 2
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
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24) Refer to the above figure. Point B is known as
A) a peak.
B) a recession.
C) an expansion.
D) a contraction.
Answer: B
Diff: 2
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

25) Refer to the above figure. Point C is known as
A) a peak.
B) a trough.
C) an expansion.
D) a contraction.
Answer: A
Diff: 2
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
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26) Refer to the above figure. The points between A and B are known as
A) a peak.
B) a trough.
C) an expansion.
D) a contraction.
Answer: D
Diff: 2
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
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27) Refer to the above figure. The points between B and C are known as
A) a peak.
B) a trough.
C) an expansion.
D) a contraction.
Answer: C
Diff: 2
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
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28) Refer to the above figure. A recession is best described as
A) the upward linear line.
B) the period between Point B and Point C.
C) the period between Point A and Point B.
D) none of the above.
Answer: C
Diff: 2
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

29) Refer to the above figure. At Point B, the actual unemployment rate
A) will decrease over time.
B) is negative.
C) tends to be higher than the natural unemployment rate.
D) tends to be lower than the natural unemployment rate.
Answer: C
Diff: 3
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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30) Ups and downs in business activity are referred to as
A) ebb and flow.
B) contractions.
C) variability.
D) business fluctuations.
Answer: D
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

31) Business fluctuations in the United States are
A) smooth and steady.
B) predictable.
C) controllable.
D) irregular and unpredictable.
Answer: D
Diff: 2
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

32) Examples of external shocks are all of the following EXCEPT
A) war.
B) drought.
C) oil shock.
D) U. S. federal tax policies.
Answer: D
Diff: 2
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

33) When the economy is experiencing a contraction, there is an increase in
A) frictional unemployment.
B) structural unemployment.
C) seasonal unemployment.
D) cyclical unemployment.
Answer: D
Diff: 2
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-14: Identify different types and measures of unemployment and discuss its causes
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34) The trough of a contraction is
A) the point in time at which the level of national business activity reaches a minimum before expanding again.
B) the point in time at which the level of national business activity reaches a maximum before contracting again.
C) the rate at which the level of business activity is declining.
D) an external shock that causes economic activity to decline.
Answer: A
Diff: 2
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

35) How has the pattern of fluctuations in overall U.S. business activity changed since World War II?
A) It has become less volatile.
B) Expansions have been eliminated.
C) Contractions have been eliminated.
D) Recessions have been eliminated.
Answer: A
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

36) Changes in business activity are
A) referred to as business fluctuations.
B) referred to as the ebb and flow of business.
C) always undesirable.
D) caused by the changing seasons every year.
Answer: A
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

37) A decline in business activity is called
A) a recession.
B) a trough.
C) an expansion.
D) a peak.
Answer: A
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
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38) Which of the following would be a leading indicator?
A) the number of unemployment claims
B) the real interest rate
C) personal income in the United States
D) an increase in stock prices
Answer: A
Diff: 3
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
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39) Which of the following statements is correct?
A) The depth and the length of all business cycles are identical.
B) The depth and the length of all business cycles are different.
C) Business cycles are caused by seasonal unemployment changes.
D) Business cycles are caused by unanticipated inflation.
Answer: B
Diff: 2
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
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40) A severe and prolonged recession is called
A) a slump.
B) a stagnation.
C) a trough.
D) a depression.
Answer: D
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
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41) Historically speaking, business fluctuations in an economy were more commonly referred to as
A) inflationary pressures.
B) economic growth.
C) the GDP deflator.
D) business cycles.
Answer: D
Diff: 2
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42) According to business activity charts for the last 100 years, the point of the highest business activity in the United States occurred
A) during the 1920s bull market boom.
B) during World War II.
C) during the Vietnam War.
D) during the Clinton administration.
Answer: B
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

43) A business fluctuation when the pace of economic activity is slowing down is called
A) a reduction.
B) a contraction.
C) a depression.
D) a slowdown.
Answer: B
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

44) Typically during a recession
A) incomes fall, and unemployment falls.
B) incomes and unemployment rise.
C) incomes fall, and unemployment rises.
D) incomes increase, and unemployment falls.
Answer: C
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
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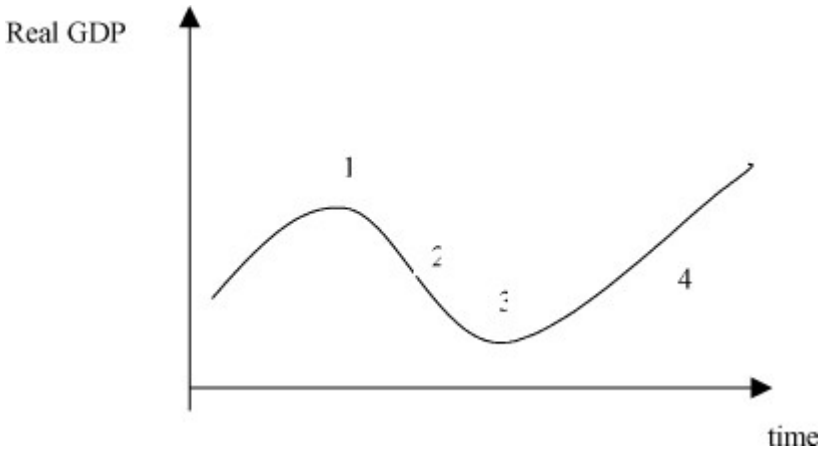
45) Changes in leading indicators signal
A) the changes in the frictional and seasonal unemployment rate.
B) the changes that will occur in the economy.
C) the changes in the frictional unemployment rate and the changes in the inflation rate.
D) the changes in the market basket.
Answer: B
Diff: 2
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46) The National Bureau of Economic Research is
A) funded by Congress and evaluates the budget appropriations.
B) funded by the Federal Reserve Banks and analyzes the banking system.
C) a nonprofit organization and evaluates the business cycles.
D) a nonprofit organization and evaluates the U.S. monetary policy.
Answer: C
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

47) The period between the trough and the peak of a business fluctuation is called
A) the growth phase.
B) the spreading out.
C) the development.
D) the expansion.
Answer: D
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking



48) Refer the above figure. Stage "1" of the economy is called
A) the top.
B) the peak.
C) the trend.
D) the climax.
Answer: B
Diff: 1
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49) Refer the above figure. Stage "2" of the economy is called
A) a contraction.
B) a peak.
C) a trough.
D) an expansion.
Answer: A
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
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50) Refer to the above figure. Stage "3" of the economy is called
A) a development.
B) a pit.
C) a trough.
D) a hole.
Answer: C
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
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51) Refer the above figure. Stage "4" of the economy is called
A) a maturity.
B) a spreading out.
C) an expansion.
D) a development.
Answer: C
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
AACSB: Analytical thinking

52) A business fluctuation when the pace of business activity is speeding up is known as
A) a contraction.
B) a trough.
C) an expansion.
D) a recession.
Answer: C
Diff: 1
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
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53) A war in the Middle East that disrupts U.S. economic activity is known as
A) an external shock.
B) an expansion.
C) a demand shock.
D) an internal shock.
Answer: A
Diff: 2
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
Learning Outcome: Macro-3: Identify and interpret key macroeconomic measures
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54) What is the business cycle? How "cyclical" is it? What causes the business cycle?
Answer: The business cycle refers to the ups and downs in overall business activity over time. It is cyclical in the sense that expansions eventually give way to contractions, which are followed again by an expansion. But, the pattern of the expansions and contractions are neither symmetrical nor repeating. External shocks are important in explaining the business cycle, although they are insufficient alone to explain the cycle.
Diff: 2
Topic: 7.5 Changing Inflation and Unemployment: Business Fluctuations
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