

Chapter 7

1. Which of the following is part of an ideal economy?
 - a) Low inflation.
 - b) Low unemployment.
 - c) Rapid growth of output per worker.
 - d) All of the above.

2. In this chapter, which of the following are considered short-run issues?
 - a) The growth of output per worker.
 - b) Inflation and unemployment.
 - c) The rate of growth of output.
 - d) All of the above.

3. Per-capita output will not grow if:
 - a) Output growth is exactly keeping up with population growth.
 - b) Both the population and output are growing.
 - c) The population is not growing.
 - d) The growth rate of output per person increases.

4. Which of the following is also known as productivity?
 - a) Output per worker.
 - b) The growth rate of output per worker.
 - c) Per-capita output growth.
 - d) Output per person.

5. All of the following will increase per capita output, except one. Which one?
 - a) Productivity does not change but the fraction of the population that is working increases.
 - b) The fraction of the population that is working remains the same and productivity increases.
 - c) The fraction of the population that is working increases, and output increases proportionally.
 - d) None of the above. All of the above result in an increase in per capita output.

6. How can output increase in the economy?
 - a) By adding more workers or more machines.
 - b) By increasing the length of the workweek.
 - c) By increasing the skills of workers or the quality of the machines.
 - d) All of the above.

7. The two features immediately clear when you examine the trend in productivity in the United States over the past fifty years are:

- a) An upward trend and fairly sizable fluctuations around that trend.
- b) A downward trend and relatively small fluctuations around that trend.
- c) A downward trend and fairly sizable fluctuations around that trend.
- d) An upward trend and relatively small fluctuations around that trend.

8. Why has the amount of output that a worker can produce per hour risen in the last half century?

- a) Because the quality of labor has been increasing.
- b) Because the capital per worker has increased.
- c) Because the quality of capital has been increasing.
- d) All of the above.

9. The most severe recession since the 1930s took place between:

- a) The first and third quarters of 2001.
- b) 1980 and 1982.
- c) 1990 and 1991.
- d) 1974 and 1975.

10. Unemployment statistics are:

- a) Released the first Friday of each month.
- b) Collected by a branch of the Department of Commerce.
- c) Comprised of a sample of 10,000 urban households.
- d) All of the above.

11. Which of the following persons is considered to be employed?

- a) An adult works 15 hours per week in a family enterprise without pay.
- b) Someone who is 16 years of age and works one hour per week.
- c) Someone who is 17 years of age and works 20 hours per week.
- d) All of the above.

12. A person not looking for work, because he or she either does not want a job or has given up looking, is classified as:

- a) Unemployed.
- b) In the labor force participation rate, but not in the labor force.
- c) Not in the labor force.
- d) In the labor force but not currently employed.

13. Which of the following expressions is the unemployment rate?

- a) $\frac{\text{Employed}}{\text{Employed} + \text{Unemployed}}$
Labor Force
- b) $\frac{\text{Employed}}{\text{Population}}$
- c) Labor force + Not in labor force
- d) $\frac{\text{Employed} + \text{Unemployed}}{\text{Unemployed}}$
- e) $\frac{\text{Employed} + \text{Unemployed}}{\text{Employed} + \text{Unemployed}}$

14. The labor-force participation rate has grown steadily since 1953. Such an increase can be attributed mostly to:

- a) The growth in the participation rate of teenagers.
- b) The growth in the participation rate of women.
- c) A return of retired persons to the labor force.
- d) The growth in the participation rate of African-American men.

15. Unemployment rates for different demographic groups in the United States reveal that:

- a) Unemployment rates are highest among teenagers.
- b) Unemployment rates are practically identical across demographic groups. The burden of unemployment is not squarely associated with any particular demographic group.
- c) The patterns of unemployment rates in the 1980s are substantially different from the patterns of our current decade.
- d) All of the above.

16. Unemployment rates in states and regions across the United States reveal that:

- a) The labor force in the United States is almost completely mobile, with workers taking advantage of job opportunities clear across the country.
- b) A low national rate of unemployment does not mean that the entire nation is growing and producing at the same rate.
- c) States and regions in the United States generally display the same levels of unemployment.
- d) All of the above.

17. When an unemployed worker becomes discouraged about finding work and stops looking, the unemployment rate will:

- a) Fall.
- b) Remain unchanged.
- c) Rise.
- d) Increase only if the worker falls out of the labor force.

18. Since 1979, the average duration of unemployment has fluctuated between:

- a) 4 and 8 weeks.
- b) 6 and 10 weeks.
- c) 10 and 20 weeks.
- d) 8 and 12 weeks.

19. Cyclical unemployment can best be described as

- a) The increase in unemployment that occurs during recessions and depressions.
- b) The unemployment that exists because old industries disappear to create new ones, and the workers in the old industries don't have the required skills to work in the new industries.
- c) The unemployment when the economy is in a boom.
- d) The unemployment associated with workers' lack of skills for the available jobs.

20. Structural unemployment occurs when

- a) Changes in the economy result in a significant loss of jobs in certain industries.
- b) The economy suffers from a recession.
- c) Inflation rises.

d) Someone just became unemployed and is looking for work, but has an absolute certainty of finding work soon.

21. The increase in unemployment that occurs during recessions and depressions is called:

- a) Natural unemployment.
- b) Cyclical unemployment.
- c) Structural unemployment.
- d) Frictional unemployment.

22. The natural rate of unemployment is the sum of:

- a) Cyclical, frictional, and structural unemployment.
- b) Frictional and structural unemployment.
- c) Cyclical and structural unemployment.
- d) Frictional and cyclical unemployment.

23. Which of the following is included in the economist's definition of inflation?

- a) A one time increase in the overall price level.
- b) An increase in the overall price level over a significant period of time.
- c) An increase in the price of one good.
- d) All of the above would be included in the definition of inflation.

24. In 2003, the consumer price index (CPI) was 184.0. In 2004, the CPI rose to 188.9. Using these CPI figures, what was the rate of inflation between these two years?

- a) 188.9%.
- b) 2.59%.
- c) 2.66%.
- d) 4.9%.

25. Which of the following statements about the CPI is correct?

- a) The CPI tends to overstate changes in the cost of living.
- b) The CPI includes the prices of imported goods.
- c) The CPI covers only consumer goods and services.
- d) All of the above.

26. The CPI market basket shows that most of a typical consumer's money goes toward:

- a) Housing, transportation, and food and beverages.
- b) Recreation, medical care, and education.
- c) Food and beverage, apparel, and other goods and services.
- d) None of the above. The typical consumer spends about the same amount of money on each of the categories listed in the choices above.

27. Measures of prices that producers receive for products at all stages in the production process are called:

- a) Leading economic indicators.
- b) Value added pricing indicators.
- c) Producer price indexes.
- d) Producer price deflators.

28. Which of the following groups of people are directly affected by unanticipated inflation?

- a) Investors.
 - b) Debtors and creditors.
 - c) Bankers and retailers.
 - d) All of the groups above are directly affected by unanticipated inflation.
29. The interest rate stated in a loan contract is:
- a) The nominal rate of interest minus the rate of inflation.
 - b) The real rate of interest.
 - c) The same as the rate of inflation.
 - d) The real rate of interest plus the rate of inflation.
30. The real rate of interest equals:
- a) The interest rate on a loan minus the inflation rate.
 - b) The interest rate on a loan times the inflation rate.
 - c) The interest rate on a loan plus the inflation rate.
 - d) The interest rate on a loan divided by the inflation rate.
31. An increase in the number of workers in the economy results in an increase in productivity.
- a) True
 - b) False
32. The average growth rate of output in the U.S. economy since 1900 has been about 3.4% per year.
- a) True
 - b) False
33. The growth rate of productivity in the United States increased during the 1950s and 1960s; then it began to decrease after the early 1970s.
- a) True
 - b) False
34. Since the early 1950s, the unemployment rate has gone up and down, but the labor-force participation rate has grown steadily.
- a) True
 - b) False
35. If the labor force were more mobile, the unemployment rate would tend to be lower.
- a) True
 - b) False
36. Between 1982 and 2000, the demographic group with the highest unemployment rate in the United States was African American women.
- a) True
 - b) False
37. An increase in the number of discouraged workers results in an increase in the unemployment rate.

- a) True
- b) False

38. As jobs become more differentiated, the frictional unemployment rate tends to rise.

- a) True
- b) False

39. The sum of the frictional and the natural rates of unemployment equals the structural rate of unemployment.

- a) True
- b) False

40. During a recession, the rate of unemployment rises.

- a) True
- b) False

41. Explain how output can increase in an economy in the long run. Which of these explanations applies to the growth of productivity in the United States since the 1950s?

42. Whether in the short run, or in the long run, some unemployment in the economy is inevitable. Explain.

45. A recession is a period of decline in output and employment. Can you think of any benefits associated with recessions in an economy?

46. Use the concept of "expected" inflation to explain why inflation may hurt lenders and benefit borrowers.