Assignment 7

1. Which of the following is not one of the four most common forms of unemployment defined by economists?
   a) Cyclical Unemployment.
   b) Frictional Unemployment.
   c) Static Unemployment.
   d) Structural Unemployment.
   e) Seasonal Unemployment.

2. Which of the following statements about the GDP gap is not true?
   a) When the GDP gap equals zero, the economy operates on its production possibilities curve.
   b) It is a measure of output lost as a result of unemployment.
   c) It is equal to potential real GDP minus actual real GDP.
   d) It widens during recessions and narrows during expansions.
   e) There are more goods and services available as the gap widens.

3. If the nominal interest rate is 6.3 percent and the inflation rate is 7.2 percent, then the real interest rate equals
   a) +1.1 percent.
   b) −0.9 percent.
   c) +13.5 percent.
   d) −13.5 percent.
   e) −7.2 percent.

4. According to economic theory, people's wages are linked to which of the following?
   a) To their past record of devotion to the firm
   b) To their lobbying abilities
   c) To their ambitions
   d) To the amount they contribute to the firm, that is, their skills
   e) To their race

5. Which of the following statements regarding U.S. unemployment rates between 1951 and 2002 is true?
   a) Teenagers have the lowest unemployment rates in the country.
   b) In most years, the unemployment rate for men is lower than it is for women.
   c) The unemployment rate for all workers reached a high of 9.7 percent in 1953.
   d) Whites have higher unemployment rates than nonwhites.
   e) The unemployment rate for all workers reached a low of 2.9 percent in 1982.
6. According to the time at which they move, the three types of indicators classified by the Department of Commerce are

   a) optimal, contractionist, and passed indicators.
   b) leading, contractionist, and passed indicators.
   c) optimal, coincident, and lagging indicators.
   d) leading, coincident, and lagging indicators.
   e) primary, contractionist, and passed indicators.

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Price Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>1.000</td>
</tr>
<tr>
<td>1993</td>
<td>1.039</td>
</tr>
<tr>
<td>1994</td>
<td>1.064</td>
</tr>
<tr>
<td>1995</td>
<td>1.093</td>
</tr>
</tbody>
</table>

7. Refer to the table above. Between 1993 and 1994, the annual inflation rate was

   a) 2.4 percent.
   b) 2.7 percent.
   c) 3.8 percent.
   d) 6.0 percent.
   e) 8.5 percent.

<table>
<thead>
<tr>
<th>Price Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>1 Pair of Jeans</td>
</tr>
<tr>
<td>1 Pair of Shoes</td>
</tr>
</tbody>
</table>

8. Which of the following is true with respect to the table above?

   a) The relative price of shoes in terms of jeans was 1.68 in 1999.
   c) The relative price of shoes rose from 1999 to 2003.
   e) The relative price of shoes in terms of jeans was 2/3 in 1999.

9. Potential GDP is the real output level that

   a) is associated with economic growth at zero percent annual inflation.
   b) is associated with full employment.
   c) would be realized in the absence of structural unemployment.
   d) is associated with the natural rate of unemployment.
   e) would be realized in the absence of inefficient government programs.
10. If the average price level was 0.64 in 1990, then the purchasing power of one dollar in that year relative to the 2002 base year was

   a) $2.27.
   b) $0.44.
   c) $1.56.
   d) $0.56.
   e) $6.64.

11. Unemployment will decrease if

   a) actual GDP increases less than potential GDP.
   b) actual GDP increases faster than potential GDP.
   c) actual GDP increases at the same rate as potential GDP.
   d) the GDP gap widens.
   e) actual GDP decreases and potential GDP remains the same.

12. The two most important aspects of business cycles are changes in

   a) the price system and the foreign exchange market.
   b) inflation and fiscal policy.
   c) monopolies and the international sector.
   d) business profits and money supply.
   e) unemployment and inflation.

13. Inflation is defined as

   a) a sustained increase in relative prices.
   b) a sustained increase in the weighted average of all prices.
   c) an increase in the prices of specific products.
   d) a sudden increase in the weighted average of all prices.
   e) any increase in the general price level.

14. This type of unemployment arises as one of the worst effects of a recession.

   a) Seasonal unemployment
   b) Static unemployment
   c) Cyclical unemployment
   d) Structural unemployment
   e) Frictional unemployment

15. When inflation is much higher than expected, which of the following is true?

   a) Nominal interest rates are lower than expected.
   b) Real interest rates are lower than expected.
   c) Nominal incomes are lower than expected.
   d) Real interest rates are higher than expected.
   e) Income is redistributed from those whose expenditures are fixed toward those who receive a fixed income.
16. The official unemployment rate is
   a) the number of unemployed people divided by the size of the non-institutionalized population.
   b) the number of unemployed people divided by the size of the non-institutionalized population, age 16 or older.
   c) the number of unemployed people divided by the total size of the population.
   d) the number of unemployed people divided by the number of employed people.
   e) the number of unemployed people divided by the size of the labor force.

17. A business cycle refers to
   a) the ups and downs of real GDP.
   b) seasonal unemployment patterns.
   c) changes in the long-term growth pattern of the CPI.
   d) fluctuations in the general price level.
   e) fluctuations in the level of corporate profits.

18. Which of the following persons would be considered unemployed?
   a) A full-time student
   b) A 15-year-old looking for summer employment
   c) A house wife/husband
   d) A person who worked more than 20 hours in a family-owned business
   e) A recent college graduate looking for her first job

19. Suppose that for a given year, the nominal interest rate is 9 percent while inflation rises to 11 percent—a 4 percent higher rate than anticipated. Which group of people is made better off by the inflation?
   a) Those who save at variable interest rates
   b) Those who receive fixed incomes
   c) Those who borrow at fixed interest rates
   d) Those who borrow at variable interest rates
   e) Those who lend at fixed interest rates

20. If stock market prices are a leading indicator, then economic activity goes up
   a) after stock market prices increase.
   b) at the same time that stock market prices increase.
   c) before stock market prices decrease.
   d) after stock market prices decrease.
   e) before stock market prices increase.
Essay Questions

1. What is the link among real interest rates, unexpected inflation, and real GDP growth? Explain.

2. Evaluate the following statement: “If all inflation is anticipated, then the real value of money will remain constant over time.”