2.02 Understanding Business Cycles

Question 1
An economy is experiencing accelerated GDP growth and businesses have started hiring full-time workers and ordering heavy equipment. This economy is *most likely* in the:
A. peak phase.
B. late expansion phase.
C. early expansion phase.

Question 2
Which of the following *best* describes a characteristic of the early expansion phase of the business cycle?
A. Inflation accelerates, leading economic growth
B. Capital spending by businesses expands rapidly
C. Consumers accelerate spending on housing and durable goods

Question 3
Loose private sector credit conditions occurring at the peak of a credit cycle are *most likely* to:
A. contribute to financial asset price bubbles.
B. result in a stronger recovery during the early part of the next economic expansion.
C. moderate the economic downturn associated with a contraction of the business cycle.

Question 4
Credit cycles are *least likely* to:
A. peak prior to recessions.
B. be countercyclical to business cycles.
C. amplify the duration and magnitude of business cycles.

Question 5
If an economy is in the early expansion phase of the business cycle, this *most likely* indicates that:
A. both inventory-to-sales ratios and labor utilization are increasing.
B. both inventory-to-sales ratios and labor utilization are decreasing.
C. inventory-to-sales ratios are decreasing, and labor utilization is increasing.

Question 6
An economic diffusion index is *most appropriately* used to identify:
A. trend change.
B. rate of change.
C. magnitude of change.

Question 7
If an economy has stabilized GDP growth and moderate inflation, it is *most likely* in which of the following phases of the business cycle?

A. Peak
B. Contraction
C. Early expansion

Question 8
The business cycle phase typically characterized by decelerating GDP growth and accelerating inflation is *most likely* a:
A. peak.
B. contraction.
C. late expansion.

Question 9
The following table lists various economic indicators and the trend in each one over the past several months for an economy.

Economic Indicator	Trend
Unemployment	Record low
Unit labor costs	Modestly rising
Industrial production growth	Steadily higher
Residential building permits	Steady decline
New orders for manufacturing	Steady decline
Long-term bond yields	Declined 1%
Short-term bond yields	Stable

This mix of economic indicators *most likely* forecasts near-term future economic:
A. stability.
B. acceleration.
C. deceleration.

Question 10
After a prolonged recession, a developed economy has experienced several quarters of rapid GDP growth and strong increases in average hourly earnings. The *most likely* impacts on housing sector activity and an existing trade deficit are that:
A. both increase.
B. both decrease.
C. housing sector activity increases and the trade deficit decreases.

Question 11
An economy has been experiencing decelerating GDP growth rates for several quarters. In the past quarter, short-term interest rates moved above long-term interest rates and initial claims for unemployment insurance increased more rapidly. Based on these indicators, the *most appropriate* forecast for the future of the economy is:
A. further deceleration of growth, possibly leading to a recession.
B. a reversal of recent trends resulting in an acceleration of GDP growth.
C. difficult to predict due to the conflicting evidence reflected in the indicators

Question 12
As an economy moves from an expansion to a contraction phase of the business cycle, which of the following indicators is *most likely* the last to signal a turn in the business cycle?
A. Average duration of unemployment
B. Average weekly hours in manufacturing
C. Building permits for new private housing units