Question #1 of 47

Question ID: 1456945

The unemployment rate is the number of unemployed individuals divided by the:

A) number of employed individuals.

B) working-age population.

C) total labor force.

Explanation

The unemployment rate of a country is the percentage of people in the labor force who are unemployed. It is calculated as: unemployment rate = (number of unemployed / labor force) × 100. The labor force includes those individuals who are employed or are actively seeking employment. The working-age population includes individuals not in the labor force.

(Module 11.2, LOS 11.f)

Question #2 of 47

Question ID: 1456943

When individuals are unemployed because they do not have perfect information concerning available jobs, this is:

A) frictional unemployment.

B) natural unemployment.

C) structural unemployment.

Explanation

Frictional unemployment exists because workers and employers do not have perfect information and must expend time and resources on search activities.

(Module 11.2, LOS 11.f)

Question #3 of 47

Question ID: 1456955

Which of the following statements regarding inflation is *most* accurate?

A) Inflation is present if the prices of some goods and services are increasing.

B) An economy experiences inflation when there is a persistent increase in the prices of almost all goods and services.

C) Inflation occurs when there is a steady increase in the relative prices of key commodities.

Explanation

Inflation is a persistent increase in the price level over time. Inflation occurs when there is a sustained increase in the prices of almost *all* goods and services. Inflation indicates a decline in the purchasing power of a currency.

(Module 11.2, LOS 11.g)

Question #4 of 47

Question ID: 1456950

The labor-force participation rate is defined as the percentage of the:

A) labor force who are working.

B) working-age population who are working or actively looking for work.

C) working-age population who are working.

Explanation

The labor-force participation rate is the percentage of the working-age population who are employed or actively seeking employment. The labor-force participation rate can be calculated as: (the labor force / working-age population) × 100.

(Module 11.2, LOS 11.f)

Question #5 of 47

Question ID: 1456931

An economy has been producing at its full-employment level of output and the price level has been stable. Businesses then begin experiencing unintended decreases in their inventory levels. What does this *most likely* imply about the short-run outlook for economic growth and inflation?

	Economic growth	Inflation
A)	Increasing	Increasing

B) Decreasing	Increasing	✗
C) Increasing	Decreasing	✗

Explanation

Starting from conditions of long-run equilibrium, unintended decreases in inventory levels suggest that aggregate demand has increased. Producers will respond in the short run by increasing output and prices, so economic growth and inflation will increase.

(Module 11.1, LOS 11.c)

Question #6 of 47

Question ID: 1456959

The current annual inflation rate, as measured by using the Consumer Price Index (CPI), is *best* defined as:

A) increase in the CPI from a year ago. ✗

B) percentage change in the CPI from a year ago. ✓

C) percentage change in the CPI from its base period. ✗

Explanation

The inflation rate is the percentage change in the price index from a year earlier.

(Module 11.2, LOS 11.h)

Question #7 of 47

Question ID: 1456936

At a recent symposium, "The Great Economic Debate of the Decade" several panelists were asked to state their opinions on aggregate demand and aggregate supply.

Panelist 1 stated that he believed shifts in both aggregate demand and aggregate supply were driven primarily by changes in technology over time.

Panelist 2 stated that she believed the focus of economic policy should be to directly increase aggregate demand by increasing the money supply or through fiscal policy.

The views of Panelist 1 and Panelist 2 would *best* be described as which economic school of thought?

	Panelist 1	Panelist 2
A)	Keynesian	New Keynesian
B)	Neoclassical	Keynesian
C)	New Classical	Monetarist

Explanation

The neoclassical economists believe that shifts in both aggregate demand and aggregate supply are primarily driven by changes in technology over time. Keynesian economists believe that aggregate demand can be increased through monetary policy (increasing the money supply) or through fiscal policy (increasing government spending, decreasing taxes, or both). They do not focus on aggregate supply. Monetarists believe that the main factor leading to business cycles and deviations from full-employment equilibrium is monetary policy.

(Module 11.1, LOS 11.d)

Question #8 of 47

Question ID: 1456935

Which of the following *most* accurately describes the Monetarist school of macroeconomic thought in relation to aggregate demand and aggregate supply? Monetarists believe that the money supply should be:

A) increased during inflationary periods and reduced during recessionary periods.

B) increased by a predictable rate annually.

C) reduced during inflationary periods and increased during recessionary periods.

Explanation

Monetarists believe that to keep aggregate demand stable and growing, the central bank should follow a policy of steady and predictable increases in the money supply. Furthermore, monetarists believe that recessions are caused by inappropriate decreases in the money supply.

(Module 11.1, LOS 11.d)

Question #9 of 47

Question ID: 1456961

Consumer price indexes are *least likely* to:

A) be calculated for stages of processing. ✓

B) compare current prices to prices in a base year. ✗

C) reflect the typical purchasing patterns of consumers. ✗

Explanation

Stages of processing are components of producer price indexes. Consumer price indexes compare the current prices of a typical consumption basket to prices in a base year.

(Module 11.2, LOS 11.h)

Question #10 of 47

Question ID: 1456932

Increases in firms' inventory-sales ratios are *most likely* to occur:

A) during an economic contraction. ✗

B) just before a peak in the economic cycle. ✓

C) just after the trough of the economic cycle. ✗

Explanation

Just before a peak in the economic cycle, sales slow, but production and inventory levels still reflect expectations of continued rapid growth. Inventory accumulates as sales slow, increasing the inventory-sales ratio until firms reduce production in response to decreased or declining sales growth.

(Module 11.1, LOS 11.c)

Question #11 of 47

Question ID: 1456927

When the economy enters an expansion phase, the *most likely* effect on external trade is a(n):

A) decrease in exports.

B) increase in exports.

C) increase in imports.

Explanation

When the domestic economy is expanding, demand for imports is likely to increase as domestic incomes increase. Exports tend to be independent of domestic economic growth and are more closely related to trading partners' economic growth.

(Module 11.1, LOS 11.c)

Question #12 of 47

Question ID: 1456924

During an economic contraction:

A) inflation pressures are typically decreasing.

B) real GDP growth is greater than its sustainable long-term rate.

C) the unemployment rate typically decreases.

Explanation

An economic contraction (recession) is typically characterized by decreasing inflationary pressures, increasing unemployment, and low or negative real GDP growth.

(Module 11.1, LOS 11.a)

Question #13 of 47

Question ID: 1456947

Which of the following is *least likely* one of the three types of unemployment?

A) Frictional.

B) Structural.

C) Seasonal.

Explanation

There are three types of unemployment: frictional, cyclical, and structural.

- Frictional unemployment is due to constant changes in the economy that prevent qualified workers from being immediately matched with existing job openings.
- Cyclical unemployment is when the economy is operating at less than full capacity.
- Structural unemployment is due to structural changes in the economy that eliminate some jobs while generating job openings for which unemployed workers are not qualified.

(Module 11.2, LOS 11.f)

Question #14 of 47

Question ID: 1456949

Maddeline Bradley left her position at a commercial bank to raise her two-year-old daughter. How is Bradley classified from the viewpoint of employment statistics?

A) Not in the labor force.

B) Unemployed.

C) Employed.

Explanation

The labor force includes all people who are either employed or actively seeking employment. As such, Bradley is not counted as part of the labor force.

(Module 11.2, LOS 11.f)

Question #15 of 47

Question ID: 1456933

According to Austrian school theory, business cycles are caused by:

A) excessive optimism or pessimism among business managers.

B) long-run structural changes in real economic variables.

C) government intervention in the economy.

Explanation

In Austrian school business cycle theory, cycles are caused by government intervention that reduces interest rates below what they would be without government intervention, which leads to an artificial economic boom that must eventually collapse because the economy lacks the physical capital to support it.

(Module 11.1, LOS 11.d)

Question #16 of 47

Question ID: 1456965

Which of the following statements about biases that affect the consumer price index (CPI) is *least* accurate?

A) Price increases that result from quality improvements are reflected as increases in the CPI. ✗

B) The basket of goods on which the CPI is based becomes a less accurate measure of household costs as new goods appear on the market. ✗

C) The net effect of built-in biases in the CPI is to underestimate inflation. ✓

Explanation

The CPI is generally believed to overestimate inflation by about 1% per year. Upward biases include quality improvements (price increases due to improving quality do not represent inflation but are reflected in the CPI), new and more expensive goods replacing older and less expensive goods, and commodity substitution (consumers substitute less expensive goods for more expensive ones, rather than continuing to consume a fixed basket of goods).

(Module 11.2, LOS 11.i)

Question #17 of 47

Question ID: 1456954

Joe Lebow, an analyst, is discussing the difference between inflation and price level. Lebow states: "The higher the price level in the current year compared to the price level in the previous year, the higher is the inflation rate of a country. Any increase in the price level is evidence of positive inflation." Lebow's statement is:

A) incorrect because not all increases in the price level indicate inflation. ✓

B) correct. ✗

C) incorrect because it inaccurately describes the calculation of an inflation rate. ✗

Explanation

Lebow is incorrect because a one-time increase in the price level is not necessarily inflation. Inflation is an on-going process, not a one-time increase in the price level.

(Module 11.2, LOS 11.g)

Question #18 of 47

Question ID: 1456969

Inflation resulting from a decrease in taxes is *most likely*:

A) demand-pull inflation.

B) stagflation.

C) cost-push inflation.

Explanation

A decrease in taxes, other things equal, will increase personal disposable income and the consumption spending component of aggregate demand. An increase in aggregate demand from a position of long-run equilibrium is the most likely cause of demand-pull inflation.

(Module 11.2, LOS 11.j)

Question #19 of 47

Question ID: 1456925

The expansion phase of a business cycle is *most likely* characterized by:

A) the rate of economic growth changing from negative to positive.

B) decreasing inflationary pressures.

C) increasing employment.

Explanation

Employment is typically increasing during the expansion phase of a business cycle. Inflationary pressures are typically decreasing during a contraction phase. The rate of economic growth changes from negative to positive in the trough phase.

(Module 11.1, LOS 11.a)

Question #20 of 47

Question ID: 1456942

Average weekly initial claims for unemployment insurance are classified as a:

A) leading indicator.

B) coincident indicator.

C) lagging indicator.

Explanation

Initial claims for unemployment insurance are considered a leading indicator.

(Module 11.2, LOS 11.e)

Question #21 of 47

Question ID: 1456956

Which of the following statements regarding inflation is *most* accurate?

A) The purchasing power of money increases as a result of inflation.

B) Inflation is a persistent increase in the general price level of goods and services.

C) As a result of inflation, all borrowers gain at the expense of lenders.

Explanation

Inflation is defined as a persistent increase in the price level over time. Inflation indicates that there has been a general decline in the purchasing power of a currency. Fixed-rate borrowers gain at the expense of lenders when inflation is greater than expected.

(Module 11.2, LOS 11.g)

Question #22 of 47

Question ID: 1456940

Manufacturing and trade sales are *best* described as a:

A) coincident indicator.

B) lagging indicator.

C) leading indicator.

Explanation

Manufacturing and trade sales are a coincident indicator that generally reflects the current phase of the business cycle.

(Module 11.2, LOS 11.e)

Question #23 of 47

Question ID: 1456960

Which of the following statements *most* accurately describes the difference between headline inflation and core inflation? Core inflation:

A) excludes raw materials and goods in process, while headline inflation includes all goods.

B) refers to producer prices, while headline inflation refers to consumer prices.

C) excludes food and energy prices, while headline inflation includes them.

Explanation

Core inflation excludes food and energy prices, which tend to be the most volatile components of headline inflation.

(Module 11.2, LOS 11.h)

Question #24 of 47

Question ID: 1456929

As an economic expansion approaches its peak, the economy is *most likely* to show:

A) a decrease in inventory levels.

B) accelerating sales growth.

C) an increase in the inventory-to-sales ratio.

Explanation

As the economy approaches its peak, sales growth begins to slow, unsold inventories begin to accumulate, and the inventory-to-sales ratio increases.

(Module 11.1, LOS 11.c)

Question #25 of 47

Question ID: 1456967

Which of the following statements is *most accurate*? Cost-push inflation:

A) often occurs because of an increase in short-run aggregate supply.

B) results from excess short-run aggregate demand.

C) typically results from a significant price increase in a production input.

Explanation

Cost-push inflation typically results from a significant price increase in a production input that causes a decrease in short-run aggregate supply.

(Module 11.2, LOS 11.j)

Question #26 of 47

Question ID: 1456930

A firm's *most likely* initial response to a cyclical increase in the inventory-to-sales ratio is to adjust their utilization of labor by:

A) adding new workers.

B) laying off employees.

C) reducing overtime.

Explanation

As a cyclical indicator, an increase in the inventory-to-sales ratio is a sign of slowing economic growth. When decreasing their utilization of labor in response to a slowing economy, firms typically first reduce overtime. Firms tend to be slow to lay off workers until it is clear that an economic contraction is underway.

(Module 11.1, LOS 11.c)

Question #27 of 47

Question ID: 1456952

Steve Walker, CFA, is attending an economics lecture, during which the lecturer makes the following two statements about consumer price inflation:

Statement 1: High-definition televisions are considerably more expensive than traditional models. This means consumers are spending more money per television unit, which represents a form of inflation.

Statement 2: Employment contracts with automatic increases based on the Consumer Price Index fail to increase wages as much as the increase in the cost of living because of biases in the price index.

Should Walker *agree* or *disagree* with these statements?

	Statement 1	Statement 2	
A)	Disagree	Agree	✗
B)	Agree	Agree	✗
C)	Disagree	Disagree	✓

Explanation

Walker should disagree with both statements. Price changes resulting from increases in the quality of goods, do not represent inflation. However, the Consumer Price Index is affected by biases from product quality, as well as new goods and substitution, causing it to overstate the rate of inflation. As a result, increases in wages that are based on CPI will more than compensate for actual increases in the cost of living.

(Module 11.2, LOS 11.f)

Question #28 of 47

Question ID: 1462787

If the number of employed remains constant, what effects will a decrease in the labor force have on the unemployment rate?

A) Decrease. ✓

B) Increase. ✗

C) No effect. ✗

Explanation

The unemployment rate is the number of unemployed divided by the labor force. Because the labor force is the sum of employed and unemployed, a decrease in the labor force with the number of employed held constant represents a decrease in the number of unemployed, and will decrease the unemployment rate. (Module 11.2, LOS 11.f)

Question #29 of 47

Question ID: 1456968

Which of the following factors would *least likely* result in demand-pull inflation? An increase in:

A) energy prices.

B) exports.

C) the quantity of money.

Explanation

Demand-pull inflation can result from any factor that increases aggregate demand, including increases in the money supply, increases in exports, and increases in government purchases. Increases in the prices of productive inputs would result in cost-push inflation as aggregate supply decreases.

(Module 11.2, LOS 11.j)

Question #30 of 47

Question ID: 1456934

According to Keynesian school theory, business cycles are caused by:

A) changes in technology over time.

B) excessive optimism or pessimism among business managers.

C) inappropriate variations in the growth of the money supply.

Explanation

In Keynesian business cycle theory, business cycles are caused primarily by changes in expectations about economic growth. Business managers overinvest when they are excessively optimistic and underinvest when they are excessively pessimistic.

(Module 11.1, LOS 11.d)

Question #31 of 47

Question ID: 1456944

Which of the following is the *most* accurate definition of the labor force?

A) People of working age who are either employed or seeking employment.

B) All people of working age.

C) People of working age who are not confined to institutions.

Explanation

The labor force includes people of working age (16+) who are either employed or seeking employment. People who are not employed or seeking employment (e.g., homemakers, full-time students, "discouraged" workers) are not counted as part of the labor force.

(Module 11.2, LOS 11.f)

Question #32 of 47

Question ID: 1456948

Which type of unemployment describes a situation where workers who have been laid off due to economic changes and they are unable to find work due to a lack of education or the necessary skills to move into another available job?

A) Cyclical.

B) Frictional.

C) Structural.

Explanation

Structural unemployment is due to structural changes in the economy that eliminate some jobs while generating job openings for which unemployed workers are not qualified. Cyclical unemployment is when the economy is operating at less than full capacity.

(Module 11.2, LOS 11.f)

Question #33 of 47

Question ID: 1456946

Which type of unemployment describes situations where qualified workers are not immediately matched with existing job openings?

A) Structural.

B) Cyclical.

C) Frictional.

Explanation

Frictional unemployment will prevent qualified workers from being immediately matched with existing job openings. Two causes are imperfect information and the job search conducted by both employers and employees.

(Module 11.2, LOS 11.f)

Question #34 of 47

Question ID: 1456941

The inventory-to-sales ratio for manufacturing and trade is classified as a:

A) lagging indicator. ✓

B) leading indicator. ✗

C) coincident indicator. ✗

Explanation

The inventory-to-sales ratio for manufacturing and trade is considered a lagging indicator because it peaks after the economy does, even though it is sometimes used in forecasting economic activity.

(Module 11.2, LOS 11.e)

Question #35 of 47

Question ID: 1456964

Which of the following is *least likely* a source of bias in CPI data?

A) Quality changes. ✗

B) Sample selection. ✓

C) Substitution. ✗

Explanation

The three sources of bias associated with CPI data are: new goods, quality changes, and substitution.

(Module 11.2, LOS 11.i)

Question #36 of 47

Question ID: 1456938

Economics lecturer Marvin Ford makes the following statements:

- The economy can remain below full employment for extended periods because wages do not adjust downward quickly when aggregate demand decreases.
- The best policy to recover from a recession is to stimulate aggregate demand directly using fiscal and monetary policy.

The business cycle theory that Ford's statements *most likely* represent is:

A) Neoclassical.

B) Austrian.

C) Keynesian.

Explanation

Ford's statements are most consistent with Keynesian business cycle theory. Keynesians believe an economy can remain in long-run disequilibrium below full employment for extended periods because money wages are "downward sticky," which prevents a rapid adjustment of aggregate supply to a decrease in aggregate demand, and they recommend stimulating aggregate demand directly using fiscal and monetary policy.

(Module 11.1, LOS 11.d)

Question #37 of 47

Question ID: 1456958

An economy with a consistently negative inflation rate is *best* described as experiencing:

A) disinflation.

B) deflation.

C) hyperinflation.

Explanation

Deflation is a sustained decline in the price level, which is reflected in a negative inflation rate. Disinflation refers to a decrease in the inflation rate over time but does not imply a negative inflation rate. Hyperinflation is an extremely high and accelerating inflation rate.

(Module 11.2, LOS 11.g)

Question #38 of 47

Question ID: 1456939

Which of the following economic indicators is classified as a leading indicator for the United States economy?

A) Average duration of unemployment.

B) Index of consumer expectations.

C) Industrial production.

Explanation

Consumer expectations are a leading indicator. Industrial production is a coincident indicator. Average duration of unemployment is a lagging indicator.

(Module 11.2, LOS 11.e)

Question #39 of 47

Question ID: 1456957

Which one of the following is *most likely* to experience loss of wealth from an increase in the inflation rate?

A) A commercial bank that has a large quantity of fixed-rate mortgages in its loan portfolio.

B) An individual investor who financed the purchase of a home with a 30-year fixed rate mortgage.

C) An individual investor who recently purchased a substantial amount of variable rate bonds.

Explanation

If an economy experiences inflation, the losers are those who hold long-term contracts in which they are to receive fixed payments. A bank that has a large quantity of fixed-rate mortgages in its loan portfolio (i.e., they are investments for the bank) is receiving fixed-rate payments. Both remaining choices are investors who are either making fixed rate payments (the homeowner) or receiving floating-rate payments (the investor in variable rate bonds).

(Module 11.2, LOS 11.g)

Question #40 of 47

Question ID: 1456923

A peak in the business cycle is *most likely* associated with:

A) payroll employment turning from positive to negative.

B) decreasing inflation pressure.

C) the highest level of economic output during the cycle.

Explanation

The peak phase of a business cycle represents the highest level of economic output (real GDP) reached during that cycle. Inflation pressure that built during the expansion may continue into the early part of the contraction that follows the peak. Employment typically does not begin to decline until sometime after the peak.

(Module 11.1, LOS 11.a)

Question #41 of 47

Question ID: 1456966

A price index that is calculated using the current consumption weights of the index's basket of goods and services is known as a:

A) Paasche price index.

B) hedonic price index.

C) Laspeyres price index.

Explanation

A Paasche index uses the current consumption weights for each good and service in its market basket. A Laspeyres index is calculated using base period consumption weights for each good and service in the market basket. Hedonic pricing is a technique used to adjust a price index for upward bias from quality changes of goods in its market basket.

(Module 11.2, LOS 11.i)

Question #42 of 47

Question ID: 1456926

Which of the following statements about credit cycles is *mostaccurate*?

A) Credit cycles are a potential cause of asset price bubbles.

B) A typical business cycle includes two or more credit cycles.

C) Credit cycles tend to dampen business cycles.

Explanation

Credit cycles tend to amplify business cycles and are a potential cause of asset price bubbles. Credit cycles have tended to be longer, on average, than business cycles.

(Module 11.1, LOS 11.b)

Question #43 of 47

Question ID: 1456962

Which of the following types of price index is *most likely* to include a sub-index for raw materials?

A) Consumer price index.

B) GDP deflator.

C) Wholesale price index.

Explanation

Wholesale or producer price indexes typically include sub-indexes for finished goods, intermediate goods, and raw materials or crude goods.

(Module 11.2, LOS 11.h)

Question #44 of 47

Question ID: 1456937

Which of the following statements is *most* accurate regarding monetarists? Monetarists believe that:

A) steady, predictable money growth is the best monetary policy.

B) discretionary monetary policy is the best way to moderate fluctuations in prices and output.

C) fiscal policy is the most powerful of all government tools used to affect prices and output.

Explanation

Monetarists believe that the Fed's tools are powerful and should *not* be used to moderate fluctuations in prices and outputs. Thus, steady, predictable growth is the best monetary policy. They believe in the power of the money supply, not fiscal policy, to affect prices and outputs.

(Module 11.1, LOS 11.d)

Question #45 of 47

Question ID: 1456963

A Laspeyres price index tends to:

A) overstate the inflation rate because its market basket is variable.

B) overstate the inflation rate, because its market basket is fixed.

C) understate the inflation rate because its market basket is fixed.

Explanation

A Laspeyres price index tends to overstate the inflation rate because it uses fixed market basket weights from a base period. This does not consider that consumers will substitute away from goods that have risen dramatically in price.

(Module 11.2, LOS 11.i)

Question #46 of 47

Question ID: 1456928

Firms' initial responses to an emerging economic contraction are *most likely* to be:

A) reducing overtime hours.

B) deferring maintenance of machinery.

C) laying off workers.

Explanation

Early in an economic contraction, firms typically reduce output by using capital and labor less intensively than during an expansion (e.g., by reducing overtime). When they believe a contraction is likely to persist, firms decrease capacity by laying off workers and reducing their physical capital, often by deferring maintenance or not replacing worn-out equipment.

(Module 11.1, LOS 11.c)

Question #47 of 47

Question ID: 1456951

Which of the following is *best* described as an example of structural unemployment?

A) When the plant was modernized, Jones lost her job because she did not have the skill needed to operate the new equipment.

B) Although there were jobs available, Johnson was unable to find an employer with a satisfactory opening.

C) Smith was laid off due to negative growth of GDP, and did not seek other employment until he was recalled to his job.

Explanation

Structural unemployment exists when changes in the economy eliminate some jobs while generating new job openings for which unemployed workers are not qualified.

(Module 11.2, LOS 11.f)