Reading 17: Understanding Business Cycles

Question #1 of 45

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

A) Temporal.

B) Frictional.

C) Structural.

Question #2 of 45

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

A) a positive rate of economic growth.

B) increasing unemployment.

C) increasing inflationary pressures.

Question #3 of 45

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

A) coincident indicator.

B) leading indicator.

C) lagging indicator.

Question #4 of 45

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

A) increase in imports.

B) decrease in exports.

C) increase in exports.

Question #5 of 45

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

A) Substitution

B) Quality changes

C) Sample selection

Question #6 of 45

During an economic contraction:

A) the unemployment rate typically decreases.

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

C) inflation pressures are typically decreasing.

Question #7 of 45

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

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

B) excessive optimism or pessimism among business managers.

C) changes in technology over time.

Question #8 of 45

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

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

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

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

Question #9 of 45

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	Decreasing
B)	Increasing	Increasing

C) Decreasing   Increasing

Question #10 of 45

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

A) leading indicator.

B) coincident indicator.

C) lagging indicator.

Question #11 of 45

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.

Question #12 of 45

When economists are speaking of the labor-force participation rate, they are referring to which of the following? The labor-force participation rate is the percentage of the:

A) working-age population who are working.

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

C) labor force who are new entrants (less than one year of work experience).

Question #13 of 45

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

A) decreasing inflation pressure.

B) payroll employment turning from positive to negative.

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

Question #14 of 45

A Laspeyres price index tends to:

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

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

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

Question #15 of 45

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

A) the quantity of money.

B) exports.

C) energy prices.

Question #16 of 45

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.

Question #17 of 45

Unemployment can be divided into the following three categories:

A) Technical, frictional, seasonal.

B) Frictional, seasonal, cyclical.

C) Frictional, cyclical, structural.

Question #18 of 45

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) laying off employees.

B) reducing overtime.

C) adding new workers.

Consumer price indexes are *least likely* to:

A) be calculated for stages of processing.

B) reflect the typical purchasing patterns of consumers.

C) compare current prices to prices in a base year.

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

A) hyperinflation.

B) deflation.

C) disinflation.

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

A) percentage change in the CPI from its base period.

B) increase in the CPI from a year ago.

C) percentage change in the CPI from a year ago.

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

Question #23 of 45

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

A) Laspeyres price index.

B) hedonic price index.

C) chained price index.

Question #24 of 45

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

A) government intervention in the economy.

B) excessive optimism or pessimism among business managers.

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

Question #25 of 45

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.

Question #26 of 45

Bradley works a 14-hour-per-week job as a bartender at McQuigley's Pub. Maddeline left her position at a commercial bank to raise her two-year old daughter. How would these individuals be classified from the viewpoint of employment statistics?

	Bradley	Maddeline
A)	Employed	Not in labor force
B)	Not in labor force	Not in labor force
C)	Employed	Employed

Question #27 of 45

Which of the following is the *most* accurate definition of the unemployment rate? The unemployment rate is the number of:

A) individuals employed divided by the number of people who are unemployed and retired.

B) unemployed individuals divided by the total labor force.

C) unemployed individuals divided by the number of employed individuals.

Question #28 of 45

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 net effect of built-in biases in the CPI is to underestimate inflation.

C) 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.

Question #29 of 45

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

A) Headline inflation is a better measure of the underlying trend in prices.

B) Core inflation refers to producer prices.

C) Core inflation does not include food and energy prices.

Question #30 of 45

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.

Question #31 of 45

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) correct.

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

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

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

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

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

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

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

A) coincident indicator.

B) lagging indicator.

C) leading indicator.

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

A) results from excess short-run aggregate demand.

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

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

Phases of a business cycle *least likely* include:

A) trough.

B) expansion.

C) restriction.

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 by a predictable rate annually.

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

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

Question #37 of 45

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) Structural.

B) Frictional.

C) Cyclical.

Question #38 of 45

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	Disagree
B)	Disagree	Agree
C)	Agree	Agree

Question #39 of 45

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

A) demand-pull inflation.

B) cost-push inflation.

C) stagflation.

Question #40 of 45

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

A) structural unemployment.

B) natural unemployment.

C) frictional unemployment.

Question #41 of 45

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.

Question #42 of 45

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

A) Frictional.

B) Cyclical.

C) Structural.

Question #43 of 45

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.

Question #44 of 45

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.

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

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

B) All people of working age.

C) Those people of working age who are not retired or in prison.