# KIA Fresh Graduates Program - Economics
# Problem Set 4

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1. An analyst writes in an economic report that the current phase of the business cycle is characterized by accelerating inflationary pressures and borrowing by companies. The analyst is most likely referring to the:

   A. peak of the business cycle.

   B. contraction phase of the business cycle.

   C. early expansion phase of the business cycle.

2. A decrease in both the labor force participation ratio and the unemployment rate is most likely caused by:

   A. an increase in discouraged workers.

   B. an increase in underemployed workers.

   C. a decrease in voluntarily unemployed persons.

3. Deflation is most likely to be associated with:

   A. a shortage of government revenue.

   B. substantial macroeconomic contraction.

   C. explicit monetary policy to combat inflation.

4. The least likely consequence of a period of hyperinflation is the:

   A. reduced velocity of money.

   B. increased supply of money.

   C. possibility of social unrest.

5. Based on Table 1, assuming the base period for 2010 consumption is November and the initial price index is set at 100, then the inflation rate after calculating the December price index as a Laspeyres index is closest to:

   A. 19.2%

| | November 2010 | | December 2010 | |
|---|---|---|---|---|
| **Goods** | **Quantity** | **Price** | **Quantity** | **Price** |
| Sugar | 70 kg | €0.90/kg | 120 kg | €1.00/kg |
| Cotton | 60 kg | €0.60/kg | 50 kg | €0.80/kg |

Table 1: Consumption baskets and prices for November and December 2010

B. 36.4%

C. 61.6%

6. For the December consumption basket in Table 1, the value of the Paasche index is closest to:

A. 116

B. 148

C. 160

7. The inventory–sales ratio is most likely to be rising:

A. as a contraction unfolds.

B. partially into a recovery.

C. near the top of an economic cycle.

8. A decrease in a country's total imports is most likely caused by:

A. an increase in the pace of domestic GDP growth.

B. a cyclical downturn in the economies of primary trading partners.

C. persistent currency depreciation relative to primary trading partners.

9. When the spread between 10-year US Treasury yields and the federal funds rate narrows and at the same time the prime rate stays unchanged, this mix of indicators most likely forecasts future economic:

A. growth.

B. decline.

C. stability.

10. Economic statistics indicating little change in services inflation, rising residential building permits, and increasing average duration of unemployment are best interpreted as:

A. conflicting evidence about the direction of the economy.

B. evidence that a cyclical upturn is expected to occur in the future.

C. evidence that a cyclical downturn is expected to occur in the future.

11. If relative to prior values of their respective indicators, the inventory–sales ratio has risen, unit labor cost is stable, and real personal income has decreased, it is most likely that a peak in the business cycle:

A. has occurred.

B. is just about to occur.

C. will occur sometime in the future.

12. When aggregate real personal income, industrial output, and the S&P 500 Index all increase in a given period, it is most accurate to conclude that a cyclical upturn is:

A. occurring.

B. about to end.

C. about to begin.

13. Which of the following indicators is most appropriate in predicting a turning point in the economy?

A. The Industrial Production Index

B. The average bank prime lending rate

C. Average weekly hours, manufacturing

14. During an economic recovery, a lagging unemployment rate is most likely attributable to:

A. businesses quickly rehiring workers.

B. new job seekers entering the labor force.

C. underemployed workers transitioning to higher-paying jobs.

15. An economist expects the following:

- The decline in the unemployment rate will result in higher revenues for home retailers.
- A tighter labor market will put upward pressure on wages, compelling home retailers to raise prices.

Which type of inflation best corresponds to the economist's expectations?

A. Stagflation

B. Cost-push inflation

C. Demand-pull inflation