Chapter 5
Monitoring Jobs and Inflation

1 Employment and Unemployment

1) The working–age population is defined as the number of
  A) people over the age of 16 who are not in jail, hospital, or other institution.
  B) people who have a job.
  C) people working full–time jobs who are over the age of 16.
  D) people looking for work.

Answer: A
Topic: Population Survey
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

2) The working–age population can be divided into two groups,
  A) people in the labor force and people looking for work.
  B) people in the labor force and people with a job.
  C) people looking for work and those in the armed forces.
  D) people in the labor force and people who are not in the labor force.

Answer: D
Topic: Population Survey
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

3) The total number of people aged 16 years and over who are not institutionalized _____.
  A) equals the number of employed plus unemployed
  B) is the working–age population
  C) does not include students
  D) is the labor force

Answer: B
Topic: Working Age Population
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

4) Which of the following statements is incorrect?
   A) The labor force is equal to the number of people employed plus the number of people unemployed.
   B) The working age population includes everyone over the age of 16.
   C) The unemployment rate is the number of persons who are unemployed divided by the labor force then times 100.
   D) The labor–force participation rate is the labor force divided by the working–age population then times 100.

Answer: B
Topic: Working Age Population
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

5) Which of the following is <u>NOT</u> included in the working–age population?
   A) discouraged workers
   B) people waiting to be called back to a job after being laid off
   C) retirees under the age of 55
   D) people in prison

Answer: D
Topic: Working Age Population
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

6) All people in the working–age population can be divided into
   A) labor force participants.
   B) employed, unemployed, or not in the labor force.
   C) either over–employed or under–employed.
   D) potential employees.

Answer: B
Topic: Working Age Population
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

7) Suppose the working age population in Tiny Town is 100 people. If 25 of these people are NOT in the labor force, the _____ equals _____.
   A) unemployment rate; 25/100 × 100
   B) unemployment rate; 25/75 × 100
   C) labor force; 75
   D) labor force; 25/100 × 100

Answer: C
Topic: Working Age Population
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

8) The labor force is the sum of the
    A) working–age population and the number of unemployed people.
    B) number of employed people and the working–age population.
    C) number of employed people and the number of unemployed people.
    D) total population and the number of unemployed people.

Answer: C
Topic: Labor Force
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

9) The labor force is defined as
    A) people with full time jobs.
    B) workers with jobs and unemployed workers.
    C) all people capable of work.
    D) All of the above answers are correct.

Answer: B
Topic: Labor Force
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

10) The _____ equals the number of _____.
    A) labor force; persons over 16 years old
    B) labor force; unemployed and employed persons
    C) working age population; employed persons
    D) unemployment rate; people unemployed

Answer: B
Topic: Labor Force
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

11) The labor force is defined as people
    A) who have a job or are looking for a job.
    B) in the working–age population who have a job.
    C) in the working–age population who have a full time job.
    D) who are 16 years of age or older.

Answer: A
Topic: Labor Force
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

12) Which population category equals the sum of employed and unemployed people?
    A) working–age population
    B) labor force
    C) young and institutionalized
    D) not in the labor force

Answer: B
Topic: Labor Force
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

13) The _____ is the total number of people aged 16 years and older (and not in jail, hospital or institutional care) while the _____ is the number of people employed and the unemployed.
    A) labor force; working–age population
    B) labor force participation rate; labor force
    C) working–age population; labor force
    D) working–age population; labor force participation rate

Answer: C
Topic: Labor Force
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

14) The labor force is defined as the number of
    A) people 16 and over.
    B) unemployed people.
    C) people with jobs, both part–time and full–time.
    D) people who are employed and unemployed.

Answer: D
Topic: Labor Force
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

15) The labor force is defined as the
    A) number of people over 16 years of age.
    B) number of people who are working.
    C) sum of employed and unemployed people.
    D) number of people in blue–collar jobs.

Answer: C
Topic: Labor Force
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

16) The labor force is defined as the
>   A) number of employed people plus the number of unemployed people.
>   B) number of people who are working.
>   C) number of people who are working in labor–type jobs.
>   D) number of union members who are working.

Answer: A
Topic: Labor Force
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

17) The labor force includes
>   A) only the number of people employed.
>   B) discouraged workers.
>   C) only the number of people unemployed.
>   D) both employed and unemployed workers.

Answer: D
Topic: Labor Force
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

18) The labor force is defined as the number of people who
>   A) are employed plus the number of people who are unemployed.
>   B) are available and looking for work but are unable to find employment.
>   C) would like to have a job but have stopped seeking work.
>   D) would like to have a full–time job but are working part–time.

Answer: A
Topic: Labor Force
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

19) Full–time students and prisoners are _____.
>   A) not in the labor force
>   B) in the labor force
>   C) counted as discouraged workers
>   D) counted as unemployed

Answer: A
Topic: Labor Force
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

20) Which of the following is <u>NOT</u> considered to be in the labor force?
   A) a student who works part–time
   B) a person who is not working but who has tried to find a job in the past week
   C) a person who is waiting to start a new job in the next 30 days
   D) a person who is not working and who has not tried to find a job

Answer: D
Topic: Labor Force
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

21) In an economy, 42 million people are in the labor force, 38 million are employed, and 47 million are of working age. How many people are not in the labor force?
   A) 19 percent
   B) 9 million
   C) 5 million
   D) 4 million

Answer: C
Topic: Labor Force
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

22) If the number of people unemployed is 100, the number of people employed is 1000, and the working–age population is 1400, then the labor force is
   A) 1000.
   B) 1100.
   C) 1400.
   D) 1500.

Answer: B
Topic: Labor Force
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

23) The official U–3 unemployment rate
   A) includes persons without a job who have made efforts in the last week to find a job.
   B) includes persons without a job, whether they are actively searching for work or not.
   C) counts discouraged workers as unemployed.
   D) counts people with part–time jobs who want full–time jobs as unemployed.

Answer: A
Topic: Unemployment
Skill: Recognition
Question history: Modified 10th edition
AACSB: Reflective Thinking

24) The official U–3 unemployment rate includes the total number of people who
   A) have jobs or are currently looking for jobs.
   B) are available and looking for work but unable to find employment.
   C) would like to have a job but have stopped seeking work.
   D) would like to have a full–time job but are working part–time.

Answer: B
Topic: Unemployment
Skill: Analytical
Question history: Modified 10th edition
AACSB: Reflective Thinking

25) Which of the following people would be counted as is employed in the Current Population Survey?
   A) Rich, who is working 20 hours a week but wants a full–time job
   B) Misty, who just quit her job to return full–time to school
   C) April, who just graduated from college and is looking for work
   D) Jason, who was laid off from work less than 6 months ago but who has stopped looking for work

Answer: A
Topic: Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

26) Which of the following best fits the definition of unemployed?
   A) retired and not working
   B) working less than a full work week
   C) not working but looking for a job
   D) not working and not looking for work

Answer: C
Topic: Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

27) Using the definition of unemployment, which of the following individuals would be unemployed?
   A) A full–time student quits school, enters the labor market for the first time, and searches for employment.
   B) Because of the increased level of automobile imports, an employee of General Motors is laid off but expects to be called back to work soon.
   C) Because of a reduction in the military budget, your next door neighbor loses her job in a plant where nuclear warheads are made and must look for a new job.
   D) All of these individuals are unemployed.

Answer: D
Topic: Population Survey
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

28) Which of the following people would be considered unemployed by the Bureau of Labor Statistics?
   I.   Mrs. X retires from her job at the age of 55 and does not look for another job.
   II. Mr. Y was laid off from his job as a welder, but expects to be rehired in 8 months.
      A) I only
      B) II only
      C) both I and II
      D) neither I nor II

   Answer: B
   Topic: Unemployment
   Skill: Conceptual
   Question history: Previous edition, Chapter 5
   AACSB: Reflective Thinking

29) Using the official measure of unemployment, which of the following people is considered unemployed?
      A) a part–time worker who wishes to work full time
      B) a person who gave up looking for jobs because he or she was discouraged about his or her job prospects
      C) a person who has been searching for work, but turns down a job paying a lower wage rate than desired
      D) a person who is working but expects to be laid off at the end of the month

   Answer: C
   Topic: Unemployment
   Skill: Conceptual
   Question history: Modified 10th edition
   AACSB: Reflective Thinking

30) Using the official measure of unemployment, which of the following would <u>NOT</u> be counted as unemployed?
      A) a person who is not working but who has tried to find a job in the past week
      B) a person who is waiting to be called back to a job after having been laid off
      C) a person who performs traditional housework and does not work outside the home for pay
      D) a person who is waiting to start a new job in the next 30 days

   Answer: C
   Topic: Unemployment
   Skill: Conceptual
   Question history: Modified 10th edition
   AACSB: Reflective Thinking

31) The unemployment rate is the _____ who are unemployed.
      A) number of people in the labor force
      B) percentage of people in the labor force
      C) percentage of people in the country
      D) percentage of the working–age population

   Answer: B
   Topic: Unemployment Rate
   Skill: Recognition
   Question history: Previous edition, Chapter 5
   AACSB: Reflective Thinking

32) The unemployment rate is calculated as
    A) [(labor force) ÷ (population)] × 100.
    B) [(unemployment) ÷ (population)] × 100.
    C) [(unemployment) ÷ (labor force)] × 100.
    D) [(labor force) ÷ (unemployment)] × 100.

Answer: C
Topic: Unemployment Rate
Skill: Recognition
Question history: New 10th edition
AACSB: Analytical Skills

33) The unemployment rate equals
    A) (number of people employed/working age population) × 100.
    B) (number of people unemployed/labor force) × 100.
    C) (labor force/working age population) × 100.
    D) (number of people employed/number of people age 16 and over) × 100.

Answer: B
Topic: Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

34) The unemployment rate equals the number of
    A) unemployed workers multiplied by 100.
    B) unemployed workers divided by the population then multiplied by 100.
    C) unemployed workers divided by the number of employed workers then multiplied by 100.
    D) unemployed workers divided by the labor force then multiplied by 100.

Answer: D
Topic: Unemployment Rate
Skill: Recognition
Question history: Modified 10th edition
AACSB: Analytical Skills

35) The unemployment rate equals
    A) (the number of unemployed workers)/(the number of employed + unemployed workers) ×
       100.
    B) (the number of unemployed workers)/(the civilian population) × 100.
    C) (the number of unemployed workers)/(the U.S. population older than 16 years of age) ×
       100.
    D) (the number of unemployed + employed workers)/(U.S. population older than 16 years of
       age) × 100.

Answer: A
Topic: Unemployment Rate
Skill: Recognition
Question history: Modified 10th edition
AACSB: Analytical Skills

36) The unemployment rate equals
    A) the total number of people without jobs in a given period.
    B) the percentage of the population not currently employed.
    C) the rate of change in unemployment figures from one period to another.
    D) the percentage of the labor force currently unemployed.

Answer: D
Topic: Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

37) The unemployment rate is found by dividing the number of unemployed people by the
    A) number of working individuals, and multiplying by 100.
    B) number of the working–age population, and multiplying by 100.
    C) sum of working individuals plus unemployed workers, and multiplying by 100.
    D) number in the labor force, and dividing by 100.

Answer: C
Topic: Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

38) The _____ is calculated as the number of people _____ divided by the labor force
multiplied by 100.
    A) unemployment rate; unemployed
    B) employment–to–population ratio; unemployed
    C) employment rate; employed
    D) employment–to–population ratio; in the working age population

Answer: A
Topic: Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

39) The unemployment rate is defined as the
    A) number of people not working.
    B) percentage of the population not working.
    C) percentage of the labor force not working.
    D) percentage of the working–age population not working.

Answer: C
Topic: Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

40) The unemployment rate is measured as
    A) the number of people that want to work but cannot find jobs out of the entire population.
    B) the percentage of people in the labor force who are unemployed.
    C) an indicator to determine long–term economic growth.
    D) an indicator for potential inflation.

Answer: B
Topic: Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

41) To calculate the unemployment rate, which of the following are necessary pieces of information?
    I.   the number of unemployed persons
    II.   the population
    III. the number of people in the labor force
    IV. the working age population
    A) I, II III and IV
    B) I and II
    C) I and III
    D) I and IV

Answer: C
Topic: Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

42) The unemployment rate measures the percentage of
    A) people who want full–time jobs, but can't find them.
    B) the working–age population who can't find a job.
    C) people in the labor force who can't find a job.
    D) the working age population that can't find a full–time job.

Answer: C
Topic: Unemployment Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

43) Which labor market statistic tends rise during recessions and fall during expansions?
    A) the unemployment rate
    B) the labor–force participation rate
    C) the employment–to–population ratio
    D) aggregate hours

Answer: A
Topic: Unemployment Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

44) Suppose the population of Tiny Town is 100 people and the working age population is 70. If 10 of these people are unemployed, the unemployment rate in Tiny Town is
   A) 10 percent.
   B) 10/70 × 100.
   C) 10/80 × 100.
   D) There is not enough information provided to calculate the unemployment rate.

Answer: D
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

45) The population of Tiny Town is 100 people and the labor force is made up of 75 people. If 5 of these people are unemployed, the unemployment rate is
   A) 5/100 × 100.
   B) 5/80 × 100.
   C) 5/75 × 100.
   D) There is not enough information provided to calculate the unemployment rate.

Answer: C
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

46) Based on the following data for the country of Tiny Town, the unemployment rate equals:
Population = 100
Labor force = 80
Number of employed persons = 70
Number of discouraged workers = 5
   A) 10/100 × 100.
   B) 10/80 × 100.
   C) 15/80 × 100.
   D) 5/70 × 100.

Answer: B
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

47) In an economy, 23 million people are employed and 2 million are unemployed, but 5 million part–time workers would prefer full–time work. What is the unemployment rate?
   A) 23.2 percent
   B) 6.7 percent
   C) 8 percent
   D) 25 percent

Answer: C
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

48) Assume that the total labor force is 100 individuals with 10 unemployed. The unemployment rate is _____. Now assume that 10 people drop out of the labor force and that 10 remain unemployed. The new unemployment rate is _____.
  A) 9 percent, 10 percent
  B) 10 percent, 9 percent
  C) 10 percent, 11 percent
  D) 11 percent, 10 percent

Answer: C
Topic: Unemployment
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

49) Which of the following decreases the official U–3 unemployment rate?
  A) Workers leave the labor force.
  B) More women enter the labor force and seek jobs.
  C) Young people graduate from college and start to look for their first full–time job.
  D) None of the above because they all increase or do not change the unemployment rate.

Answer: A
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 1
AACSB: Reflective Thinking

50) During a recession, people drop out of the labor force because they are unable to find a job. All else the same, this
  A) increases the official U–3 unemployment rate.
  B) decreases the official U–3 unemployment rate.
  C) does not change the official U–3 unemployment rate.
  D) increases the official U–3 unemployment rate and the labor force participation rate.

Answer: B
Topic: Unemployment Rate
Skill: Conceptual
Question history: Modified 10th edition
AACSB: Reflective Thinking

51) In the United States in 1996, the population was 265.5 million and the working age population was 200.6 million. There were 133.9 million people in the labor force and 126.7 of them were employed. The unemployment rate equaled _____.
  A) 7.2 percent
  B) 5.4 percent
  C) 3.6 percent
  D) 33 percent

Answer: B
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

52) Suppose there are 100 million in the labor force, and 6 million unemployed people. During the next month, 200,000 people lose their jobs and 300,000 find jobs. The new total of employed persons is _____ and the new unemployment rate is _____.
   A) 100.1 million; 5.8 percent
   B) 100 million; 6.1 percent
   C) 94.1 million; 5.9 percent
   D) 93.9 million; 6.1 percent

Answer: C
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

53) Suppose the working–age population is 220 million, the labor force is 150 million, and the unemployment rate is 10 percent. The number of unemployed people is
   A) 15 million.
   B) 22 million.
   C) 37 million.
   D) 7 million.

Answer: A
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

54) Suppose initially that the working–age population is 220 million, the labor force is 150 million, and the official U–3 unemployment rate is 10 percent. 5 million new jobs are created and filled by 5 million people who had previously been discouraged workers. What is the new U–3 unemployment rate?
   A) 6.25 percent
   B) 6.7 percent
   C) 9.7 percent
   D) 8.7 percent

Answer: C
Topic: Unemployment Rate
Skill: Analytical
Question history: Modified 10th edition
AACSB: Analytical Skills

55) If the number of people unemployed is 100, the number of people employed is 1000, and the working–age population is 1400, then the unemployment rate is
   A) 6.6 percent.
   B) 10 percent.
   C) 9.1 percent.
   D) 7.1 percent.

Answer: C
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

56) Suppose the population is 220 million people, the labor force is 150 million people, the number of people employed is 130 million and the working–age population is 175 million people. What is the unemployment rate?
   A) 9.0 percent
   B) 13.3 percent
   C) 11.4 percent
   D) 15.4 percent

Answer: B
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

57) Suppose there are currently 100 people unemployed, 1500 people employed, 1600 people in the labor force, and 2000 people in the working age population. The unemployment rate equals 100 times
   A) 100/1500.
   B) 100/1600.
   C) 100/2000.
   D) 1500/2000.

Answer: B
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

58) If the population is 300 million, with 70 million under the age of 16 and institutionalized, another 70 million not in the labor force, 10 million unemployed and 150 million employed, the unemployment rate is
   A) 23.3 percent.
   B) 6.7 percent.
   C) 6.25 percent.
   D) 26.7 percent.

Answer: C
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

59) Suppose the current unemployment rate is 5 percent, the labor force is 400 million people, the labor force participation rate is 80 percent and the working–age population is 500 million people. What number of people are unemployed?
   A) 100 million people
   B) 25 million people
   C) 20 million people
   D) 5 million people

Answer: C
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

Person A	Now that the kids are in school for a full day, this person is looking for work and has interviewed for three jobs during the past two weeks.
Person B	This person has been laid off from a job but expects to be called back as soon as the economy improves.
Person C	This person has just graduated from college and will start a new job in three weeks. In the meantime this person will tour the great American beaches.
Person D	This person was laid off last year when new equipment was installed at the plant, reducing the number of workers needed. Shortly after being laid off, this person looked for a new job, was unable to find one and then stopped looking, even though this person still wants a job and is available for work.

60) The above table shows answers given by people interviewed in a government survey of households. Which individuals are considered to be a part of the labor force?
    A) C and D
    B) B, C, and D
    C) A, C, and D
    D) A, B, and C

Answer: D
Topic: Population Survey
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

61) The above table shows answers given by people interviewed in a government survey of households. Which individuals are considered unemployed using the official U–3 unemployment rate?
    A) A, B, and C
    B) B, C, and D
    C) A, C, and D
    D) C and D

Answer: A
Topic: Population Survey
Skill: Conceptual
Question history: Modified 10th edition
AACSB: Reflective Thinking

62) The above table shows answers given by people interviewed in a government survey of households. Which individual or individuals are considered marginally attached?
   A) A
   B) B, C, and D
   C) A and D
   D) A and D

Answer: A
Topic: Marginally Attached Workers
Skill: Conceptual
Question history: New 10th edition
AACSB: Reflective Thinking

Total population (millions)	Currently employed (millions)	Not working and looking for work (millions)	Want to work but no longer looking for work (millions)
80	40	2	4

63) In the table above, the size of the labor force is
   A) 80 million.
   B) 46 million.
   C) 42 million.
   D) 40 million.

Answer: C
Topic: Labor Force
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

64) In the table above, the number of people officially unemployed is _____.
   A) 40 million
   B) 6 million
   C) 4 million
   D) 2 million

Answer: D
Topic: Population Survey
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

65) In the table above, the official U–3 unemployment rate is
    A) 50 percent.
    B) 15 percent.
    C) 10 percent.
    D) 5 percent.

Answer: D
Topic: Unemployment Rate
Skill: Analytical
Question history: Modified 10th edition
AACSB: Analytical Skills

66) In the table above, the number of marginally attached workers is _____.
    A) 40 million
    B) 6 million
    C) 2 million
    D) 4 million

Answer: D
Topic: Marginally Attached Workers
Skill: Analytical
Question history: New 10th edition
AACSB: Analytical Skills

67) The employment–to–population ratio equals
    A) (labor force)/(working–age population) × 100.
    B) (number of people employed)/(labor force) × 100.
    C) (number of people with full–time jobs)/(labor force) × 100.
    D) (number of people employed)/(working–age population) × 100.

Answer: D
Topic: Employment–to–Population Ratio
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

68) The employment–to–population ratio is defined as
    A) total employment divided by labor hours then multiplied by 100.
    B) the labor force divided by the working–age population then multiplied by 100.
    C) total employment divided by the labor force then multiplied by 100.
    D) total employment divided by the working–age population then multiplied by 100.

Answer: D
Topic: Employment–to–Population Ratio
Skill: Recognition
Question history: Modified 10th edition
AACSB: Analytical Skills

69) The employment–to–population ratio is equal to the number of
    A) unemployed people divided by the total population then multiplied by 100.
    B) employed people divided by the working–age population then multiplied by 100.
    C) employed people divided by the total population then multiplied by 100.
    D) unemployed people divided by the working age population then multiplied by 100.

Answer: B
Topic: Employment–to–Population Ratio
Skill: Recognition
Question history: Modified 10th edition
AACSB: Analytical Skills

70) The percentage of people employed aged 16 years and older divided by the working–age
population is known as the
    A) employment rate.
    B) employment–to–population ratio.
    C) labor force participation rate.
    D) working–age population ratio.

Answer: B
Topic: Employment–to–Population Ratio
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

71) The percentage of the people of working age who have jobs is called the _____.
    A) labor force
    B) inverse of the unemployment rate
    C) employment–to–population ratio
    D) employment–to–working–age–population ratio

Answer: C
Topic: Employment–to–Population Ratio
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

72) In an economy, 43 million people are employed, 3 million are unemployed, and 4 million are
not in the labor force. What is the employment–to–population ratio?
    A) 86 percent
    B) 92 percent
    C) 93 percent
    D) 6.5 percent

Answer: B
Topic: Employment–to–Population Ratio
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

73) Suppose the number of people employed is 25 million and the number of people in the labor force is 75 million. What is the employment–to–population ratio?
    A) 33 percent
    B) 25 percent
    C) 75 percent
    D) There is not enough information given to answer the question.

Answer: D
Topic: Employment–to–Population Ratio
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

74) If the number of people unemployed is 100, the number of people employed is 1000, and the working–age population is 1400, then the employment–to–population ratio is
    A) 78.6 percent.
    B) 75 percent.
    C) 71.4 percent.
    D) 66.6 percent.

Answer: C
Topic: Employment–to–Population Ratio
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

75) If the population is 300 million, with 70 million under the age of 16 and institutionalized, another 70 million not in the labor force, 10 million unemployed, and 150 million employed, the employment–to–population rate is
    A) 53.3 percent.
    B) 65.2 percent.
    C) 46.7 percent.
    D) 87.5 percent.

Answer: B
Topic: Employment–to–Population Ratio
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

76) Based on the following data for the country of Tiny Town, the employment–to–population ratio equals _____ multiplied by 100.
Population = 200
Working age population = 100
Labor Force = 90
Number of employed persons = 75
  A) 90/100.
  B) 75/200
  C) 90/200.
  D) 75/100.

Answer: D
Topic: Employment–to–Population Ratio
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

77) From 1980 to 2000 the trend in the employment–to–population ratio was _____ and from 2000 to 2010 the trend was _____.
  A) upward; downward
  B) downward; downward
  C) upward; upward
  D) downward; upward

Answer: A
Topic: Employment–to–Population Ratio
Skill: Recognition
Question history: New 10th edition
AACSB: Reflective Thinking

Total population (millions)	Currently employed (millions)	Not working and looking for work (millions)	Want to work but no longer looking for work (millions)
80	40	2	4

78) The labor force participation rate is the ratio of
  A) (the labor force divided by the working–age population) multiplied by 100.
  B) (the number of unemployed divided by the working–age population) multiplied by 100.
  C) (the labor force divided by the total population) multiplied by 100.
  D) (the number of unemployed divided by the labor force) multiplied by 100.

Answer: A
Topic: Labor Force Participation Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

79) The labor force participation rate is calculated as the
    A) labor force divided by the number of persons employed then multiplied by 100.
    B) number of persons unemployed divided by the labor force then multiplied by 100.
    C) labor force divided by the unemployment rate then multiplied by 100.
    D) labor force divided by the working age population then multiplied by 100.

Answer: D
Topic: Labor Force Participation Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

80) The labor force participation rate is percentage of the _____ who are in the labor force.
    A) people under age 65
    B) working–age population
    C) people over age 16
    D) population

Answer: B
Topic: Labor Force Participation Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

81) The labor force participation rate shows the percentage of
    A) people not working, but who want to work.
    B) people who are not actively participating in meaningful economic activity.
    C) new entrants into the labor force.
    D) non–institutionalized working–age people who are actually working or seeking employment.

Answer: D
Topic: Labor Force Participation Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

82) From 1980 to 2000 the trend in the labor force participation rate was _____ and from 2000 to 2010 the trend was _____.
    A) upward; downward
    B) downward; downward
    C) upward; upward
    D) downward; upward

Answer: A
Topic: Labor Force Participation Rate
Skill: Recognition
Question history: New 10th edition
AACSB: Reflective Thinking

83) Which of the following pieces of information do you need to calculate the labor force participation rate?
I.   the number of employed persons
II. the number of unemployed persons
III. the population
IV. the working age population
   A) I and II
   B) I and III
   C) I, II and III
   D) I, II and IV

Answer: D
Topic: Labor Force Participation Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

84) If the people who take early retirement are not counted in the working–age population, then
   A) the unemployment rate would be lower.
   B) the labor force participation rate would be less.
   C) the unemployment rate would be higher.
   D) the labor force participation rate would be higher.

Answer: D
Topic: Labor Force Participation Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

85) In an economy, 40 million people are employed, 2 million are unemployed, and 8 million are not in the labor force. What is the labor force participation rate?
   A) 83 percent
   B) 84 percent
   C) 80 percent
   D) 87.5 percent

Answer: B
Topic: Labor Force Participation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

86) If the labor force participation rate is rising and the working–age population is not changing, then the
   A) size of the labor force is rising.
   B) number of unemployed people is rising and the size of the labor force is falling.
   C) size of the labor force is falling.
   D) number of unemployed people is falling and the size of the labor force is rising.

Answer: A
Topic: Labor Force Participation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

87) Suppose the labor force in Tiny Town is 100 people. If the _____ in Tiny Town is 150 people, the labor force participation rate equals _____ multiplied by 100.
   A) working age population; 100/150
   B) working age population; 100/250
   C) number of employed persons; 100/250
   D) number of employed persons; 100/150

Answer: A
Topic: Labor Force Participation Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

88) Suppose there are currently 100 people unemployed, 1500 people employed, and 2000 people in the working age population. The labor force participation rate equals 100 times
   A) 100/1500.
   B) 100/1600.
   C) 1500/2000.
   D) 1600/2000.

Answer: D
Topic: Labor Force Participation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

89) If the number of people unemployed is 100, the number of people employed is 1000, and the working–age population is 1400, then the labor force participation rate is
   A) 78.6 percent.
   B) 71.4 percent.
   C) 64.3 percent.
   D) 66.6 percent.

Answer: A
Topic: Labor Force Participation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

90) Suppose the population is 220 million people, the labor force is 150 million people, the number of people employed is 130 million and the working–age population is 175 million people. What is the labor force participation rate?
   A) 0.68 percent
   B) 68 percent
   C) 85.7 percent
   D) 86.7 percent

Answer: C
Topic: Labor Force Participation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

91) If the population is 300 million, with 70 million under the age of 16 and institutionalized, another 70 million not in the labor force, 10 million unemployed and 150 million employed, the labor force participation rate is
   A) 69.6 percent.
   B) 23.3 percent.
   C) 6.67 percent.
   D) 50 percent.

Answer: A
Topic: Labor Force Participation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

Category	Number (millions)
Discouraged workers	15
Unemployed workers	40
Employed workers	100
Population (16 years and over)	225

92) In the above table, the working age population is
   A) 225 million.
   B) 100 million.
   C) 140 million.
   D) 155 million.

Answer: A
Topic: Population Survey
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

93) In the above table, the size of the labor force is
   A) 210 million.
   B) 155 million.
   C) 140 million.
   D) 100 million.

Answer: C
Topic: Population Survey
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

94) In the above table, the unemployment rate is
    A) 6 percent.
    B) 24 percent.
    C) 18 percent.
    D) 29 percent.

Answer: D
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

95) In the above table, the labor force participation rate is
    A) 55 percent.
    B) 44 percent.
    C) 62 percent.
    D) 69 percent.

Answer: C
Topic: Labor Force Participation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

96) In the above table, the employment–to–population ratio is
    A) 51 percent.
    B) 42 percent.
    C) 62 percent.
    D) 44 percent.

Answer: D
Topic: Employment–to–Population Ratio
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

97) In the above table, the number of marginally attached workers is
    A) 40 million.
    B) 55 million.
    C) 15 million.
    D) 100 million.

Answer: C
Topic: Marginally Attached Workers
Skill: Analytical
Question history: New 10th edition
AACSB: Analytical Skills

Component	Number of people (millions)
Under 16	50
Working full–time	90
Working part–time	30
Retired	40
Unemployed	5

98) Using the data in the above table, the unemployment rate is
    A) 4.0 percent.
    B) 4.16 percent.
    C) 5.55 percent.
    D) 28.0 percent.

Answer: A
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

99) Using the data in the above table, the labor force is _____ million.
    A) 215
    B) 120
    C) 125
    D) 165

Answer: C
Topic: Labor Force
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

100) Using the data in the above table, the labor force participation rate is
    A) 66 percent.
    B) 58.1 percent.
    C) 75.7 percent.
    D) 96.0 percent.

Answer: C
Topic: Labor Force Participation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

Component	Number of people
Total population	2600
Working–age population	2000
Not in labor force	500
Employed	1300

101) Using the information in the table above, calculate the number of people in the labor force.
   A) 2500
   B) 2100
   C) 1500
   D) 800

Answer: C
Topic: Labor Force
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

102) Using the information in the table above, calculate the unemployment rate.
   A) 53.3 percent
   B) 30.8 percent
   C) 13.3 percent
   D) 7.7 percent

Answer: C
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

103) Using the information in the table above, calculate the employment–to–population ratio.
   A) 75 percent
   B) 65 percent
   C) 50 percent
   D) 23.2 percent

Answer: B
Topic: Employment–to–Population Ratio
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

Component	Number of people (millions)
Total population	246
Working–age population	207
Labor force	139
Employed	133
Unemployed	6

104) Using the information in the above table, the unemployment rate is
    A) 4.5 percent.
    B) 4.3 percent.
    C) 2.8 percent.
    D) 6.0 percent.

Answer: B
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

105) The labor force participation rate is
    A) 67.1 percent.
    B) 64.0 percent.
    C) 95.7 percent.
    D) 56 percent.

Answer: A
Topic: Labor Force Participation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

106) The employment–to–population ratio is
    A) 67 percent.
    B) 64 percent.
    C) 50 percent.
    D) 62 percent.

Answer: B
Topic: Employment–to–Population Ratio
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

107) An individual who has stopped looking for a job but has looked in the past and still wants a job is referred to as
    A) a contingent worker.
    B) a productive worker.
    C) a marginally attached worker.
    D) an unemployed worker.

Answer: C
Topic: Marginally Attached Workers
Skill: Recognition
Question history: New 10th edition
AACSB: Reflective Thinking

108) An individual who has stopped looking for a job because he is convinced that he cannot find a job is referred to as
    A) a contingent worker.
    B) a productive worker.
    C) a discouraged worker.
    D) an unemployed worker.

Answer: C
Topic: Discouraged Workers
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

109) A discouraged worker _____ counted as officially unemployed and _____ counted as in the labor force.
    A) is; is
    B) is; is not
    C) is not; is
    D) is not; is not

Answer: D
Topic: Discouraged Workers
Skill: Recognition
Question history: Modified 10th edition
AACSB: Reflective Thinking

110) Discouraged workers _____ counted as officially unemployed because they _____.
    A) are; are not working
    B) are; are still in the labor force
    C) are not; are not qualified to work
    D) are not; are not actively seeking work

Answer: D
Topic: Discouraged Workers
Skill: Conceptual
Question history: New 10th edition
AACSB: Reflective Thinking

111) During a recession, the _____.
　　　A) number of discouraged workers decreases
　　　 B) unemployment rate decreases
　　　C) employment–to–population ratio increases
　　　D) number of marginally attached workers increases

Answer: D
Topic: Marginally Attached Workers
Skill: Conceptual
Question history: Modified 10th edition
AACSB: Reflective Thinking

112) Including marginally attached workers in the calculation of the unemployment rate would
　　　A) increase the reported rate.
　　　 B) lower the reported rate.
　　　C) not change the reported rate.
　　　D) change the reported rate, but in an unpredictable manner.

Answer: A
Topic: Marginally Attached Workers
Skill: Conceptual
Question history: Modified 10th edition
AACSB: Reflective Thinking

113) When an individual who has not been working but has been looking for work decides to terminate the search process, the official unemployment rate
　　　A) will fall.
　　　 B) will rise.
　　　C) will remain unchanged.
　　　D) may fall or rise depending on whether or not the individual resumes his education.

Answer: A
Topic: Marginally Attached Workers
Skill: Conceptual
Question history: Modified 10th edition
AACSB: Reflective Thinking

114) Marginally attached workers fall into which of the following population categories?
　　　A) employed
　　　 B) unemployed
　　　C) labor force
　　　D) not in the labor force

Answer: D
Topic: Marginally Attached Workers
Skill: Conceptual
Question history: Modified 10th edition
AACSB: Reflective Thinking

115) Who of the following is counted as unemployed?
    A) Rene, a retired chemist
    B) Homer, a full–time student at a vocational school
    C) Kim, a worker on strike from her company for a week
    D) Glenn, a student who just graduated from college *last* week and is currently looking for a job

Answer: D
Topic: Study Guide Question, Population Survey
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

116) In a country with a working–age population of 150 million, 120 million workers are employed and 10 million workers are unemployed. What is the size of the labor force?
    A) 150 million
    B) 130 million
    C) 120 million
    D) 10 million

Answer: B
Topic: Study Guide Question, Population Survey
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

117) In a country with a working–age population of 300 million, 230 million workers are employed and 40 million workers are unemployed. What is the labor force participation rate?
    A) 100 percent
    B) 90 percent
    C) 65 percent
    D) 5 percent

Answer: B
Topic: Study Guide Question, Population Survey
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

118) In a country with a working–age population of 100 million, 70 million workers are employed and 5 million workers are unemployed. What is the labor force participation rate?
    A) 70 percent
    B) 5 percent
    C) 75 percent
    D) 7 percent

Answer: C
Topic: Study Guide Question, Labor Force Participation Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

119) In a country with a working–age population of 130 million, 90 million workers are employed and 10 million workers are unemployed. What is the unemployment rate?
   A) 5.0 percent
   B) 7.1 percent
   C) 7.7 percent
   D) 10.0 percent

Answer: D
Topic: Study Guide Question, Unemployment Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

2 Unemployment and Full Employment

1) Bob inherits a large sum of money from his dead uncle's estate. Bob decides to retire young, so he quits his job and heads to the Bahamas. Bob is an example of
   A) frictional unemployment.
   B) structural unemployment.
   C) cyclical unemployment.
   D) None of the above is correct.

Answer: D
Topic: Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

2) The three types of unemployment are
   A) voluntary, involuntary, and structural.
   B) voluntary, part–time, and cyclical.
   C) frictional, part–time, and involuntary.
   D) frictional, structural, and cyclical.

Answer: D
Topic: Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

3) Frictional unemployment
   A) includes discouraged workers.
   B) is voluntary part–time unemployment.
   C) is unemployment associated normal labor turnover.
   D) is unemployment associated with declining industries.

Answer: C
Topic: Frictional Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

4) Frictional unemployment is
   A) unemployment associated with business cycle recessions.
   B) unemployment associated with the changing of jobs in a changing economy.
   C) long-term unemployment.
   D) unemployment associated with declining industries.

Answer: B
Topic: Frictional Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

5) This type of unemployment reflects the normal amount of unemployed workers who possess skills that will enable them to find another job.
   A) cyclical unemployment
   B) frictional unemployment
   C) structural unemployment
   D) None of the above answers is correct.

Answer: B
Topic: Frictional Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

6) Frictional unemployment includes
   A) unemployment caused by normal labor turnover associated with people leaving and entering the labor force.
   B) unemployment caused by industries moving overseas to better meet foreign competition.
   C) unemployment caused by a lack of education so that workers do not possess necessary job skills.
   D) unemployment caused by automation of the work place that displaces unskilled workers.

Answer: A
Topic: Frictional Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

7) Unemployment caused by the normal labor turnover is called _____ unemployment.
   A) part-time
   B) frictional
   C) involuntary
   D) cyclical

Answer: B
Topic: Unemployment Types
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

8) Frictional unemployment is the result of
    A) technological change or foreign competition.
    B) normal labor market turnover.
    C) a slowdown in the rate of economic expansion.
    D) irresponsible workers with poor work habits.

Answer: B
Topic: Frictional Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

9) Which of the following correctly describes "frictional unemployment"?
    A) Frictional unemployment is due mainly to job losers.
    B) Frictional unemployment is due mainly to job leavers.
    C) Frictional unemployment occurs mainly during recessions.
    D) Frictional unemployment is a normal occurrence in a growing economy.

Answer: D
Topic: Frictional Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

10) Frictional unemployment comes about because of
    A) friction between labor and management.
    B) a mismatch between skills and available jobs.
    C) normal labor market turnover.
    D) a general economic slowdown.

Answer: C
Topic: Frictional Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

11) The type of unemployment created by the normal rate of reentry and entry into the labor force is
    A) frictional unemployment.
    B) structural unemployment.
    C) cyclical unemployment.
    D) seasonal unemployment.

Answer: A
Topic: Frictional Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

12) Unemployment caused by people voluntarily leaving their jobs is classified as
    A) part–time unemployment.
    B) cyclical unemployment.
    C) frictional unemployment.
    D) seasonal unemployment.

Answer: C
Topic: Frictional Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

13) Suppose the country of Tiny Town experienced frictional unemployment. This frictional unemployment would
    A) definitely signal that the country is in a recession.
    B) be considered a natural occurrence in a growing economy.
    C) signal that there are more job leavers than job losers.
    D) signal that the number of discouraged workers is growing.

Answer: B
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

14) When an individual is frictionally unemployed, the unemployment arises in part from
    A) a short–term elimination of jobs because of a slowdown in business activity.
    B) individuals searching for appropriate employment.
    C) the permanent elimination of jobs because of a change in the structure of the economy.
    D) a reduction in the overall demand for workers' skills.

Answer: B
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

15) Frictional unemployment increases when
    A) real GDP decreases and the unemployment rate rises.
    B) the number of workers who quit one job to find another increases.
    C) discouraged workers drop out of the work force.
    D) workers are replaced by machines and the unemployed workers do not have the skills to perform new jobs.

Answer: B
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

16) To prevent frictional unemployment, we would have to
    A) eliminate recessions.
    B) eliminate the business cycle.
    C) prevent people from leaving their jobs.
    D) make sure everyone goes to college.

Answer: C
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

17) A person quits her job in order to spend time looking for a better–paying job. This type of unemployment is an example of
    A) frictional unemployment.
    B) cyclical unemployment.
    C) seasonal unemployment.
    D) structural unemployment.

Answer: A
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Modified 10th edition
AACSB: Reflective Thinking

18) An individual with good job prospects who is between jobs is best considered as
    A) structurally unemployed.
    B) cyclically unemployed.
    C) not in the labor force.
    D) frictionally unemployed.

Answer: D
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

19) A recent accounting graduate from a major business school is searching for a place to begin his career as an accountant. This individual is best considered as
    A) structurally unemployed.
    B) seasonally unemployed.
    C) cyclically unemployed.
    D) frictionally unemployed.

Answer: D
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

20) When a worker quits a job to look for a better job,
    A) structural and cyclical unemployment increase.
    B) structural unemployment decreases.
    C) cyclical unemployment increases.
    D) frictional unemployment increases.

Answer: D
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

21) When a woman reenters the labor force and looks for a job after spending time at home raising a child,
    A) cyclical unemployment increases.
    B) structural unemployment decreases.
    C) frictional and cyclical unemployment increase.
    D) frictional unemployment increases.

Answer: D
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

22) Students who leave school in the spring and look for work are one source of _____.
    A) structural unemployment
    B) cyclical unemployment
    C) frictional unemployment
    D) business–cycle fluctuations

Answer: C
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

23) When a student finishes college and begins looking for work,
    A) cyclical unemployment increases.
    B) structural unemployment increases.
    C) frictional unemployment increases.
    D) frictional and cyclical unemployment increase.

Answer: C
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

24) Which of the following most likely would decrease frictional unemployment?
    A) an increase in the number of high school and college graduates
    B) effective Internet–based employment services and job registries
    C) an expansion of unemployment compensation benefits
    D) All of the above would decrease frictional unemployment.

Answer: B
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

25) Suppose that Matt quits a job with the XYZ Corporation in order to look for more rewarding employment. Matt would be best be considered as
    A) still being employed.
    B) included in the economy's "hidden employment."
    C) frictionally unemployed.
    D) cyclically unemployed.

Answer: C
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

26) Catherine quit her job in order to look for a new one; therefore, she is best considered as
    A) frictionally unemployed.
    B) structurally unemployed.
    C) cyclically unemployed.
    D) seasonally unemployed.

Answer: A
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

27) Because of a bank merger, Ms. Davis lost her position as Vice President and had to seek work with other banks. Ms. Davis has the skills necessary to find a new job, thus she is best considered as
    A) frictionally unemployed.
    B) cyclically unemployed.
    C) structurally unemployed.
    D) naturally unemployed.

Answer: A
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

28) Bill loses his job as a loan officer when the bank he works for is bought up by a larger financial institution. Bill has the skills necessary to find a new job, so as Bill searches for work he is best considered an example of
   A) frictional unemployment.
   B) structural unemployment.
   C) cyclical unemployment.
   D) a discouraged worker.

Answer: A
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Modified 10th edition
AACSB: Reflective Thinking

29) The best example of a frictionally unemployed individual is
   A) Charles who has lost his job as an autoworker because of increased imports and can't find a good job that utilizes his skills.
   B) Mary who quit her job to find work closer to her home.
   C) Sam who lost his job as a real estate salesperson when the housing market went soft because of a recession.
   D) Sandy who has few skills and is no longer looking for work.

Answer: B
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

30) Structural unemployment is
   A) associated with the normal changing of jobs in a dynamic economy.
   B) associated with the general downturns in the economy.
   C) associated with the general decline of specific industries.
   D) almost always short–term in nature.

Answer: C
Topic: Structural Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

31) Structural unemployment is the result of
   A) technological change or foreign competition.
   B) normal labor market turnover.
   C) a slowdown in the rate of economic expansion.
   D) irresponsible workers with poor work habits.

Answer: A
Topic: Structural Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

32) Structural unemployment is
    A) associated with the changing of jobs in a dynamic economy.
     B) associated with general downturns in the economy.
    C) associated with changes in technology that change required job skills.
    D) very short–term unemployment.

Answer: C
Topic: Structural Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

33) Suppose that over a period of years the country of Quasiland switched from being an agriculturally–based economy to a technologically–based economy. As a result, many people lost jobs because they lacked the correct skills. As they search for new jobs, these people are part of
    A) frictional unemployment.
     B) structural unemployment.
    C) cyclical unemployment.
    D) discouraged workers.

Answer: B
Topic: Structural Unemployment
Skill: Recognition
Question history: Modified 10th edition
AACSB: Reflective Thinking

34) An individual is structurally unemployed if
    A) there is a recession and the individual is laid off.
     B) the individual wants to work just during certain months of the year.
    C) the individual quits a job in order to search for a better one.
    D) the individual lacks marketable job skills because technology has changed.

Answer: D
Topic: Structural Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

35) Which statement correctly describes "structural unemployment?"
    A) Structural unemployment occurs mainly during recessions.
     B) Structural unemployment is also called "frictional unemployment."
    C) Structural unemployment occurs even when the economy is at the natural unemployment rate.
    D) The amount of structural unemployment depends on normal labor turnover.

Answer: C
Topic: Structural Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

36) Unemployment caused by changes in technology is called _____ unemployment.
    A) structural
    B) frictional
    C) techno
    D) cyclical

Answer: A
Topic: Structural Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

37) Structural unemployment
    A) falls during the expansion phase of the business cycle.
    B) falls as the pace of technological progress increases.
    C) generally lasts longer than frictional unemployment.
    D) falls when the government provides more generous unemployment compensation
       benefits.

Answer: C
Topic: Structural Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

38) Suppose that the number of jobs in the fishing industry decreases but the number of jobs in the
    travel industry increases. Initially, _____.
    A) the economy remains at full employment
    B) structural unemployment increases
    C) there is a shortage of workers in both sectors
    D) cyclical unemployment increases

Answer: B
Topic: Structural Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

39) When the automobile replaced horse–drawn carriages as the principal means of transportation,
    firms producing horse–drawn carriages went bankrupt and permanently laid off all their
    workers, thereby increasing
    A) frictional unemployment.
    B) structural unemployment.
    C) frictional and cyclical unemployment.
    D) cyclical unemployment.

Answer: B
Topic: Structural Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

40) The nation's structural unemployment will increase when
    A) bad economic policies send the economy into a recession.
     B) there is influx into the labor market of new college graduates.
    C) there is an increase in post–Christmas layoffs of workers.
    D) an increase in textile imports displaces older textile workers who do not have the skills necessary to find new jobs.

Answer: D
Topic: Structural Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

41) A major characteristic of structural unemployment that differentiates it from frictional unemployment is that structural unemployment
    A) exists only during a recession.
     B) exists in an expansion whereas there is no frictional unemployment in an expansion.
    C) is a short–term problem.
    D) usually lasts longer than frictional unemployment.

Answer: D
Topic: Structural Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

42) When the economy switches production toward services and away from manufacturing and workers in the manufacturing industry are permanently laid off,
    A) frictional unemployment decreases.
     B) structural unemployment increases.
    C) cyclical unemployment increases.
    D) frictional and cyclical unemployment increase.

Answer: B
Topic: Structural Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

43) Suppose the country of Tiny Town decided to open its borders to free trade. As a result, a number of its workers lost their jobs to international competition and can't find new jobs because their skills don't match what is required for job openings. The workers who lost their jobs and searched for new ones are best be considered part of
    A) frictional unemployment.
     B) structural unemployment
    C) cyclical unemployment.
    D) discouraged workers.

Answer: B
Topic: Structural Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

44) In the 1990s, video recordings were made primarily on tapes. However, in the 2000s DVDs became increasingly popular, leading to a sharp decline in video tapes. As a result, many people who manufactured tapes lost their jobs and didn't have the skills necessary to work making DVDs. This occurrence is best consider an example of
    A) frictional unemployment.
    B) structural unemployment.
    C) cyclical unemployment.
    D) underemployment.

Answer: B
Topic: Structural Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

45) How would you best describe a manufacturing employee who has been fired because he was replaced by a robot (new technology) and does not have the skills necessary to help operate the robot?
    A) job leaver
    B) entrant/reentrant
    C) cyclically unemployed
    D) structurally unemployed

Answer: D
Topic: Structural Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

46) Which of the following individuals is the best example of a structurally unemployed worker?
    A) a recent college graduate who has entered the labor force
    B) an individual who has been laid off from his job because of a business cycle recession
    C) an automobile worker who has lost her job because of an increase in automobile imports and does not have the skills currently needed by businesses
    D) an individual who quits one job in the hope of finding a better job

Answer: C
Topic: Structural Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

47) Ms. Krupsky has shorthand and typing skills and still finds herself unemployed. In today's economy, Ms. Krupsky is an example of what type of unemployment?
    A) cyclical unemployment
    B) frictional unemployment
    C) structural unemployment
    D) None of the above answers is correct.

Answer: C
Topic: Structural Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

48) Andrew just lost his job as a corkscrew operator since his company has found a machine to perform his work tasks. Andrew did not have the skills needed to operate the machine. Andrew has searched for a new job for 6 months and continues to search. Therefore, Andrew is considered to be
    A) frictionally unemployed.
    B) a discouraged worker.
    C) cyclically unemployed.
    D) structurally unemployed.

Answer: D
Topic: Structural Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

49) Nicholas does not possess marketable job skills; therefore, he is
    A) frictionally unemployed.
    B) structurally unemployed.
    C) cyclically unemployed.
    D) seasonally unemployed.

Answer: B
Topic: Structural Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

Person A	This person has just graduated from high school and is working at a part–time job but wants a full–time job.
Person B	At the age of 45, this person was laid off from the automobile industry when new equipment was installed and the person did not have the skills necessary to use the equipment. This person now is searching to find a new job.
Person C	As a result of this person's spouse being transferred to a job in a new city, this person is looking for a new job.
Person D	This person just graduated from college and is looking for an engineering job. In the meantime, this person is working full–time waiting tables.

50) The above table shows answers given by people interviewed in the Current Population Survey. Which people are structurally unemployed?
    A) A, B, C, and D
    B) A, B, and C
    C) B and C.
    D) A, B, and D

Answer: C
Topic: Structural Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

51) The above table shows answers given by people interviewed in the Current Population Survey. Which person is cyclically unemployed?
   A) A
   B) B
   C) C
   D) None of the people

Answer: D
Topic: Structural Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

52) Cyclical unemployment
   A) is due mainly to job leavers.
   B) may increase or decrease during an expansion.
   C) occurs when technology improvements change job requirements.
   D) fluctuates over the business cycle.

Answer: D
Topic: Cyclical Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

53) Which type of unemployment increases during a recession?
   A) cyclical unemployment
   B) frictional unemployment
   C) structural unemployment
   D) the natural unemployment rate

Answer: A
Topic: Cyclical Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

54) Cyclical unemployment
   A) is always present in an economy.
   B) is higher during an expansion.
   C) decreases during a recession.
   D) fluctuates over the business cycle.

Answer: D
Topic: Cyclical Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

55) Cyclical unemployment is the result of
    A) technological change or foreign competition.
    B) normal labor market turnover.
    C) the business cycle.
    D) irresponsible workers with poor work habits.

Answer: C
Topic: Cyclical Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

56) Cyclical unemployment occurs when
    A) individuals enter into the labor market making the rounds of potential employers.
    B) individuals with skills no longer valued in the labor market cannot find employment.
    C) individuals give up the search for employment.
    D) a business cycle recession decreases employment.

Answer: D
Topic: Cyclical Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

57) Unemployment caused by the fluctuation of the business cycle is called _____
unemployment.
    A) structural
    B) recession–related
    C) frictional
    D) cyclical

Answer: D
Topic: Cyclical Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

58) Unemployment that is the result of recessions is called
    A) frictional unemployment.
    B) cyclical unemployment.
    C) downtime unemployment.
    D) structural unemployment.

Answer: B
Topic: Cyclical Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

59) Suppose the country of Quasiland experienced a decrease in real GDP and people were laid off from their jobs. The people would be considered part of
    A) frictional unemployment.
    B) structural unemployment.
    C) cyclical unemployment.
    D) discouraged workers.

Answer: C
Topic: Cyclical Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

60) The primary factor leading to cyclical unemployment is when
    A) businesses often discriminate in their hiring practices on the basis of age, sex, and race.
    B) the level of overall economic activity fluctuates.
    C) workers quit their jobs in order to look for higher paying employment.
    D) some workers do not have marketable job skills.

Answer: B
Topic: Cyclical Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

61) If a worker is temporarily laid off because the economy is in a recession,
    A) frictional unemployment increases.
    B) structural unemployment increases.
    C) the size of the labor force rises.
    D) cyclical unemployment increases.

Answer: D
Topic: Cyclical Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

62) A recession causes a decrease in the demand for housing, resulting in substantial layoffs in the construction industry. The people laid off are considered
    A) cyclically unemployment.
    B) frictionally unemployment.
    C) seasonally unemployment.
    D) structurally unemployment.

Answer: A
Topic: Cyclical Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

63) If the economy enters an expansion,
   A) cyclical unemployment increases.
   B) structural unemployment increases.
   C) cyclical unemployment decreases.
   D) structural unemployment decreases.

Answer: C
Topic: Cyclical Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

64) Cyclical unemployment
   A) is the major part of the natural unemployment rate.
   B) decreases during economic expansions.
   C) rises as a result of increased international competition.
   D) falls when unemployment compensation payments are increased.

Answer: B
Topic: Cyclical Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

65) During an economic expansion, real GDP _____ and unemployment _____.
   A) increases; increases
   B) increases; decreases
   C) decreases; increases
   D) decreases; decreases

Answer: B
Topic: Cyclical Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

66) An observer of the economy notices that over the past 12 months the unemployment rate has fallen from 7.0 percent to 6.5 percent. During the same time, the rate of growth in real GDP has been positive. From this information we might conclude that
   A) inflation is not occurring.
   B) an expansion is occurring in the economy.
   C) a recession is in progress.
   D) a trough in the business cycle will soon be reached.

Answer: B
Topic: Cyclical Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

67) Cyclical unemployment _____.
    A) decreases during an expansion
    B) grows at the same rate as potential GDP
    C) is zero at a business–cycle trough
    D) decreases during a recession

Answer: A
Topic: Cyclical Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

68) Cyclical unemployment _____ during expansions and _____ during recessions.
    A) increases; increases
    B) increases; decreases
    C) decreases; increases
    D) decreases; decreases

Answer: C
Topic: Cyclical Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

69) Auto and steel workers commonly experience this type of unemployment in a recession.
    A) frictional unemployment
    B) cyclical unemployment
    C) structural unemployment
    D) natural unemployment rate

Answer: B
Topic: Cyclical Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

70) If the economy enters a recession,
    A) frictional unemployment increases.
    B) structural unemployment decreases.
    C) cyclical unemployment increases.
    D) the number of workers on layoff decreases.

Answer: C
Topic: Cyclical Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

71) Recessions and expansions affect most strongly which type of unemployment?
    A) frictional unemployment
    B) structural unemployment
    C) cyclical unemployment
    D) seasonal unemployment

Answer: C
Topic: Cyclical Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

72) Mike has just been laid off from his construction job because consumers are not purchasing new homes because of the recession. Mike would be considered to be part of
    A) structural unemployment.
    B) cyclical unemployment.
    C) seasonal unemployment.
    D) frictional unemployment.

Answer: B
Topic: Cyclical Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

73) Bill is a high–school drop out who lost his job in a fast food restaurant when the economy plunged into a recession. After 8 months, Bill is still looking for work. He is an example of
    A) frictional unemployment.
    B) structural unemployment.
    C) cyclical unemployment.
    D) the natural unemployment rate

Answer: C
Topic: Cyclical Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

74) The best example of a cyclically unemployed individual is
    A) Charles who lost his job as a real estate salesperson when the housing market went soft because of a recession.
    B) Alice who quit her job to enter college.
    C) Mary who lost her job in the textile industry following a decrease in the tariff on textiles.
    D) Bob who has just graduated from college and is entering the labor market.

Answer: A
Topic: Cyclical Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

75) Which of the following situations best describes an individual who is cyclically unemployed?
  A) Catherine is a ski instructor who is not working because it is summer.
   B) Matthew was an artillery man, but he has been unable to find work since he left the army.
  C) Nicholas was laid–off when orders for General Motors cars fell during a recession.
  D) Susan quit her job as a preschool teacher to try to find a better paying job.

Answer: C
Topic: Cyclical Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

76) Full employment occurs when
  A) structural unemployment is zero.
   B) cyclical unemployment is zero.
  C) frictional unemployment is zero.
  D) cyclical and frictional unemployment are zero.

Answer: B
Topic: Full Employment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

77) Full employment occurs when
  A) there is no cyclical unemployment.
   B) there is no unemployment.
  C) there is no frictional unemployment.
  D) the unemployment rate is less than 5 percent.

Answer: A
Topic: Full Employment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

78) Full employment means that
  A) no one is unemployed.
   B) there is no cyclical unemployment.
  C) there is no cyclical or frictional unemployment.
  D) there is no structural or frictional unemployment.

Answer: B
Topic: Full Employment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

79) The economy is at full employment when
   A) there are no unemployed workers.
   B) all unemployment is frictional or structural.
   C) there are fewer unemployed workers than available jobs.
   D) all unemployment is cyclical.

Answer: B
Topic: Full Employment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

80) Full employment occurs when the
   A) unemployment rate equals the natural unemployment rate.
   B) structural unemployment rate equals the frictional unemployment rate.
   C) natural unemployment rate equals the frictional unemployment rate.
   D) cyclical unemployment rate equals the natural unemployment rate.

Answer: A
Topic: Full Employment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

81) Full employment occurs
   A) only if the unemployment rate is zero.
   B) only if the unemployment rate is equal to the natural unemployment rate.
   C) only if unemployment is equal to structural unemployment plus cyclical unemployment.
   D) None of the above answers are correct.

Answer: B
Topic: Full Employment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

82) When the economy is at full employment the
   A) natural unemployment rate is equal to 0 percent.
   B) natural unemployment rate equals the unemployment rate.
   C) natural unemployment rate is equal to 10 percent.
   D) unemployment rate is equal to 0 percent.

Answer: B
Topic: Full Employment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

83) An economy is at full employment when _____.
    A) the unemployment rate is zero
    B) there is no frictional unemployment
    C) the unemployment rate equals the natural unemployment rate
    D) there is no structural unemployment

Answer: C
Topic: Full Employment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

84) Suppose the natural unemployment rate equals 6 percent and the current unemployment rate is 8 percent. We can conclude that
    A) there is no structural unemployment.
    B) there is no frictional unemployment.
    C) there is no cyclical unemployment.
    D) full employment is not occurring.

Answer: D
Topic: Full Employment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

85) Full employment means
    A) zero unemployment.
    B) only cyclical unemployment exists.
    C) only frictional and structural unemployment exists.
    D) None of the above answers are correct.

Answer: C
Topic: Full Employment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

86) When economists speak of full employment, they refer to the case in which the sum of frictional and structural unemployment is
    A) falling over time.
    B) equal to zero.
    C) equal to the actual amount of unemployment.
    D) greater than the level of deficient demand unemployment.

Answer: C
Topic: Full Employment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

87) When the economy is operating at full employment, the natural unemployment rate consists of only
  A) cyclical unemployment.
  B) frictional and structural unemployment.
  C) frictional and cyclical unemployment.
  D) structural and cyclical unemployment.

Answer: B
Topic: Full Employment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

88) An unemployment rate of zero percent cannot be expected because
  A) there are some people who do not want to work.
  B) there will always be discouraged workers.
  C) some portion of the labor force will always be between jobs.
  D) cyclical unemployment will always exist.

Answer: C
Topic: Natural Unemployment Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

89) The natural unemployment rate
  i)   occurs when only there is no cyclical unemployment present.
  ii) is the unemployment rate when the economy is at potential GDP.
  A) i only.
  B) ii only
  C) neither i nor ii.
  D) i and ii

Answer: D
Topic: Natural Unemployment Rate
Skill: Recognition
Question history: Modified 10th edition
AACSB: Reflective Thinking

90) The natural unemployment rate
  A) falls with an increase in cyclical unemployment.
  B) rises with an increase in structural unemployment.
  C) rises with an increase in cyclical unemployment.
  D) rises with a decrease in frictional unemployment.

Answer: B
Topic: Natural Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

91) The unemployment rate is at the natural unemployment rate when
    A) frictional unemployment equals zero.
     B) structural unemployment equals zero.
    C) cyclical unemployment equals zero.
    D) all types of unemployment equal zero.

Answer: C
Topic: Natural Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

92) The natural unemployment rate is the unemployment rate that exists when there is no
    A) structural unemployment.
     B) frictional unemployment.
    C) cyclical unemployment.
    D) cyclical or structural unemployment.

Answer: C
Topic: Natural Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

93) When cyclical unemployment is zero,
    A) frictional unemployment is zero.
     B) cyclical and frictional unemployment are zero.
    C) structural unemployment is zero.
    D) the unemployment rate equals the natural unemployment rate.

Answer: D
Topic: Natural Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

94) The natural unemployment rate
    A) is a constant figure of about 4 percent.
     B) fluctuates with the rate of inflation.
    C) is the unemployment rate that occurs when the economy is at full employment.
    D) is equal to cyclical unemployment.

Answer: C
Topic: Natural Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

95) If unemployment is at the natural rate, then there
   A) is no cyclical unemployment.
   B) is no frictional unemployment.
   C) will be cyclical and frictional unemployment but not structural unemployment.
   D) will be only cyclical unemployment.

Answer: A
Topic: Natural Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

96) If unemployment equals the natural unemployment rate, then there
   A) is zero unemployment.
   B) is only frictional or structural unemployment.
   C) are no job openings existing at the time.
   D) is less than full employment.

Answer: B
Topic: Natural Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

97) The natural unemployment rate
   A) occurs when the unemployment rate is 0 percent.
   B) is the unemployment rate when there is no structural unemployment.
   C) is the unemployment rate at full employment.
   D) is the unemployment rate when there is only cyclical unemployment.

Answer: C
Topic: Natural Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

98) Full employment exists when
   A) there is only frictional and structural unemployment.
   B) the economy is at the natural unemployment rate.
   C) there is no cyclical unemployment.
   D) All of the above answers are correct.

Answer: D
Topic: Natural Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

99) When the economy moves into and out of recessions and expansions, the unemployment rate
fluctuates around the
    A) natural unemployment rate.
    B) structural unemployment rate.
    C) cyclical unemployment.
    D) frictional unemployment rate.

Answer: A
Topic: Natural Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

100) The natural unemployment rate _____.
    A) is the same from year to year
    B) is greater than the actual rate of unemployment
    C) is the unemployment rate when there is no cyclical unemployment
    D) equals zero

Answer: C
Topic: Natural Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

101) When cyclical unemployment increases and other things remain the same, _____.
    A) the natural unemployment rate increases
    B) the amount of frictional unemployment increases
    C) the amount of structural unemployment decreases
    D) the natural unemployment rate does not change

Answer: D
Topic: Natural Unemployment Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

102) The relationship between the unemployment rate and the natural unemployment rate is that the
unemployment rate
    A) fluctuates about the natural rate.
    B) equals the natural rate.
    C) is always below the natural rate.
    D) is always above the natural rate.

Answer: A
Topic: Natural Unemployment Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

103) Suppose the economy is experiencing frictional unemployment of 1 percent, structural unemployment of 3 percent and cyclical unemployment of 4 percent. What is the natural unemployment rate?
   A) 3 percent.
   B) 4 percent.
   C) 5 percent.
   D) 7 percent.

Answer: B
Topic: Natural Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

104) Suppose that the natural unemployment rate is 4.5 percent and the actual unemployment rate is 3.5 percent. Then cyclical unemployment is
   A) 1 percent.
   B) –1 percent.
   C) 8 percent.
   D) 0 percent.

Answer: B
Topic: Natural Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

105) The natural unemployment rate
   A) estimated to be close to 9 percent in recent years in the United States.
   B) has been estimated to range between 4 percent and 6 percent in the United States in recent years.
   C) is attained whenever the unemployment rate is less than 5 percent because 95 percent employment is considered full employment.
   D) occurs when 100 percent of the labor force is employed.

Answer: B
Topic: Natural Unemployment Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

106) Cyclical unemployment exists when
   A) frictional and structural unemployment is zero.
   B) real national income exceeds potential income.
   C) real GDP exceeds potential GDP.
   D) real GDP is less than potential GDP.

Answer: D
Topic: Potential GDP and Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

107) When real GDP is _____ potential GDP, the unemployment rate is _____ the natural unemployment rate.
    A) greater than; less than
    B) less than; equal to
    C) equal to; greater than
    D) greater than; greater than

Answer: A
Topic: Potential GDP and Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

108) Suppose that the unemployment rate equals 4.5 percent and that the natural unemployment rate is 5.5 percent. We can conclude that
    A) the output gap is negative.
    B) the output gap equals zero.
    C) the output gap is positive.
    D) we have mismeasured the natural unemployment rate.

Answer: C
Topic: Potential GDP and Unemployment
Skill: Conceptual
Question history: Modified 10th edition
AACSB: Reflective Thinking

109) When the unemployment rate is less than the natural unemployment rate,
    A) the output gap is positive.
    B) the output gap equals zero.
    C) the output gap is negative.
    D) None of the above is possible because it is impossible for the unemployment rate to be less than the natural rate.

Answer: A
Topic: Potential GDP and Unemployment
Skill: Conceptual
Question history: Modified 10th edition
AACSB: Reflective Thinking

110) When more labor is unemployed than the amount at the natural unemployment rate, then real GDP _____ potential GDP.
    A) is equal to
    B) is less than
    C) is greater than
    D) cannot be compared to

Answer: B
Topic: Potential GDP and Unemployment
Skill: Conceptual
Question history: New 10th edition
AACSB: Reflective Thinking

111) The unemployment rate generally falls during _____ in the business cycle.
   A) a peak
   B) a recession
   C) a trough
   D) an expansion

Answer: D
Topic: Study Guide Question, Unemployment Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

112) At the natural unemployment rate, there is no
   A) frictional unemployment.
   B) structural unemployment.
   C) cyclical unemployment.
   D) unemployment.

Answer: C
Topic: Study Guide Question, Natural Rate of Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

113) If the economy is at full employment,
   A) the entire population is employed.
   B) the entire labor force is employed.
   C) the only unemployment is frictional unemployment plus discouraged workers.
   D) real GDP equals potential GDP.

Answer: D
Topic: Study Guide Question, Full Employment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

3 The Price Level, Inflation, and Deflation

1) An increase in the price level is defined as
   A) a recession.
   B) a growth boom.
   C) inflation.
   D) an expansion.

Answer: C
Topic: Inflation
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

2) Inflation is a problem when
    A) it is unpredictable.
    B) it causes the value of money to vary unpredictably.
    C) it causes resources to be diverted from productive uses.
    D) All of the above answers are correct.

Answer: D
Topic: Why Inflation Is a Problem
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

3) Unpredictable changes in the value of money, which brings about gains and losses, are a consequence of unpredictable changes in
    A) real GDP.
    B) unemployment rate.
    C) inflation.
    D) productivity.

Answer: C
Topic: Why Inflation Is a Problem
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

4) The cost of inflation to society includes
    I.   the opportunity costs of resources used by people to protect themselves against inflation.
    II.   the diversion of productive resources to forecasting inflation.
    A) I only
    B) II only
    C) both I and II
    D) neither I nor II

Answer: C
Topic: Why Inflation Is a Problem
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

5) The cost of inflation to society includes
    A) unpredictable changes in the value of money.
    B) higher interest rates paid by borrowers.
    C) higher interest rates paid by the government on its debt.
    D) the lost spending when people do not have enough money.

Answer: A
Topic: Why Inflation Is a Problem
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

6) In a period of rapid, unexpected inflation, resources can be lost
    A) when firms invest in research and development instead of forecasting inflation.
    B) when firms use resources to forecast inflation.
    C) because rapid inflation almost always turns into a hyperinflation.
    D) Both answers B and C are correct.

Answer: B
Topic: Why Inflation Is a Problem
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

7) Hyperinflation is defined as
    A) declining inflation rates.
    B) rising but low inflation rates.
    C) very high inflation rates.
    D) very low inflation rates.

Answer: C
Topic: Why Inflation Is a Problem
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

8) The Consumer Price Index is a measure of the average of the prices paid by _____ for a fixed basket of consumer goods and services.
    A) urban consumers
    B) all consumers
    C) urban wage earners and clerical workers
    D) consumers living in cities with a population greater than 100,000

Answer: A
Topic: Consumer Price Index
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

9) The first step in measuring the CPI is to
    A) select the market basket.
    B) conduct a monthly survey.
    C) collect prices for the basket of goods and services.
    D) interview businesses.

Answer: A
Topic: Consumer Price Index
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

10) The consumer price index (CPI)
    A) compares the cost of the typical basket of goods consumed in period 1 to the cost of a
       basket of goods typically consumed in period 2.
    B) compares the cost in the current period to the cost in a reference base period of a basket of
       goods typically consumed in the base period.
    C) measures the increase in the prices of the goods included in GDP.
    D) is the ratio of the average price of a typical basket of goods to the cost of producing those
       goods.

Answer: B
Topic: Consumer Price Index
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

11) If the basket of goods and services used to calculate the CPI cost $200 in the reference base
    period and $450 in a later year, the CPI for the latter year equals
    A) 200.
    B) 225.
    C) 325.
    D) 450.

Answer: B
Topic: Consumer Price Index
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

12) If the CPI basket costs $35 in the base period but costs $42, what is the CPI in the next period?
    A) 83.3
    B) $42
    C) 20 percent
    D) 120

Answer: D
Topic: Consumer Price Index
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

13) Suppose the Consumer Price Index is 143.6. What does that number mean?
    A) On average, goods cost $143.60.
    B) On average, goods cost $243.60.
    C) Prices rose 143.6 percent over the reference base period, on average.
    D) Prices rose 43.6 percent over the reference base period, on average.

Answer: D
Topic: Consumer Price Index
Skill: Conceptual
Question history: Modified 10th edition
AACSB: Analytical Skills

14) If the CPI is 120, this means that
     A) prices are 120 percent higher than in the reference base period.
     B) prices are 0.12 times higher than in the reference base period.
     C) prices are 20 percent higher than in the reference base period.
     D) the inflation rate must be positive.

Answer: C
Topic: Consumer Price Index
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

	CPI basket quantity	2003 price	2011 price
DVDs	10 discs	$16 per disc	$12 per disc
Bottled water	200 bottles	$1.00 per bottle	$1.25 per bottle

15) If 2003 is the reference base period, what is the price index for the CPI basket of goods for 2011 in the above table?
     A) 97.3
     B) 102.8
     C) 128.0
     D) zero because the price of CDs fell and the price of water increased

Answer: B
Topic: Consumer Price Index
Skill: Conceptual
Question history: Modified 10th edition
AACSB: Analytical Skills

		2008	2009
Item	Quantity	Price	Price
Movie tickets	4	$5.00	$7.50
Bags of popcorn	2	$3.00	$3.00
Drinks of soda	4	$1.00	$1.50

16) The information in the table above gives the 2008 reference base period CPI basket and prices used to construct the CPI for a small nation. It also has the 2009 prices. What is the value of the CPI for the reference base period, 2008?
     A) 140
     B) 133
     C) 100
     D) 75

Answer: C
Topic: Consumer Price Index
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

17) The information in the table above gives the 2008 reference base period CPI basket and prices used to construct the CPI for a small nation. It also has the 2009 prices. What is the value of the CPI for 2009?
  A) 140
  B) 133
  C) 100
  D) 75

Answer: A
Topic: Consumer Price Index
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

18) The CPI basket contains 400 oranges and 800 pens. In the base year, the price of an orange is $1.00 and the price of a pen is $0.75. This year, urban consumers each buy 300 oranges at $2.00 each and 850 pens at $1.00 each. The CPI this year is _____.
  A) 1.60
  B) 62.5
  C) 160
  D) 140

Answer: C
Topic: Consumer Price Index
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

19) If the CPI basket of goods cost $200 in the reference base period and $450 in a later year, the CPI in the later year equals
  A) 225.
  B) 250.
  C) 300.
  D) 450.

Answer: A
Topic: Consumer Price Index
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

20) Using the notation P_t to designate this period's price level and P_{t-1} to designate last period's price level, the formula for measuring the inflation rate from last period to this period is
  A) $[(P_t - P_{t-1}) / P_t] \times 100$.
  B) $[(P_{t-1} - P_t) / P_{t-1}] \times 100$.
  C) $[(P_t - P_{t-1}) / P_{t-1}] \times 100$.
  D) $[(P_{t-1} - P_t) / P_t] \times 100$.

Answer: C
Topic: Inflation Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

21) Suppose the CPI last year is 121 and the CPI this year is 137. The correct method to calculate the inflation rate is
    A) (137 – 121)/100 = 0.16.
    B) 137 × 121 = 258.
    C) [(137 – 121)/121] × 100 = 13.2.
    D) (137/121) × 100 = 113.2.

Answer: C
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

22) If the CPI was 132.5 at the end of last year and 140.2 at the end of this year, the inflation rate over these two years was
    A) 7.7 percent.
    B) 5.4 percent.
    C) 4.4 percent.
    D) 5.8 percent.

Answer: D
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

23) If the CPI was 121.5 at the end of last year and 138.3 at the end of this year, the inflation rate over these two years was
    A) 10.2 percent.
    B) 13.8 percent.
    C) 12.2 percent.
    D) 16.8 percent.

Answer: B
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

24) If the CPI was 122.3 at the end of last year and 124.5 at the end of this year, the inflation rate over these two years was
    A) 1.8 percent.
    B) 2.5 percent.
    C) 22.5 percent.
    D) 18.0 percent.

Answer: A
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

25) If the CPI was 132.5 at the end of last year and 137.5 at the end of this year, the inflation rate over these two years was
   A) 3.6 percent.
    B) 3.8 percent.
   C) 5.0 percent.
   D) None of the above answers is correct.

Answer: B
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

26) At the end of last year the Consumer Price Index was equal to 163.8 and at the end of this year it was equal to 157.5. What is the inflation rate over this time period?
   A) 6.3 percent
    B) 4.0 percent
   C) 3.85 percent
   D) 10.1 percent

Answer: B
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

27) If the price level last year was 220 and this year is 250, what is the inflation rate between the two years?
   A) 30 percent
    B) 13.6 percent
   C) 12.2 percent
   D) 20 percent

Answer: B
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

28) If this year the price level is 135 and last year it was 125, the inflation rate is
   A) 8 percent.
    B) 10 percent.
   C) 12 percent.
   D) none of the above

Answer: A
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

29) Suppose the price level this year is 150 and the price level last year was 125. The inflation rate between last year and this year was
    A) 20 percent.
    B) 2 percent.
    C) 16.6 percent.
    D) 1.6 percent.

Answer: A
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

30) Suppose that last year the Consumer Price Index was 124; this year it is 130.7. What was the inflation rate between these years?
    A) 30.7 percent
    B) 6.7 percent
    C) 5.4 percent
    D) 5.1 percent

Answer: C
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

31) If the CPI this year is 220 and was 200 in last year, the annual inflation rate between the two years is
    A) 5 percent.
    B) 10 percent.
    C) 20 percent.
    D) 2 percent.

Answer: B
Topic: Inflation
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

32) If the Consumer Price Index last year was 110 and 115 this year, the inflation rate is approximately
    A) 4.5 percent.
    B) 5.0 percent.
    C) 10.0 percent.
    D) 15.0 percent.

Answer: A
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

33) If the CPI for this year is 220 and the CPI for last year was 215, the inflation rate is
    A) just over 2 percent.
    B) 5 percent.
    C) just over 5 percent.
    D) 10 percent.

Answer: A
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

34) If this year's price level is 126 and last year's price level was 120, the inflation rate is _____.
    A) 0.95 percent a year
    B) 5 percent a year
    C) 6 percent a year
    D) 1.05 percent a year

Answer: B
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

35) If the CPI at the end of last year was 100 and the CPI at the end of this year was 115, the inflation rate was
    A) 1.5 percent.
    B) 15 percent.
    C) 100 percent.
    D) 115 percent.

Answer: B
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

36) Last year's price level was 120 and since then there has been a 5 percent inflation. This year's price level is
    A) 125.
    B) 126.
    C) 130.
    D) none of the above

Answer: B
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

Year	Price level
2008	91
2009	100
2010	110
2011	121

37) In the above table, the inflation rate between 2008 and 2009 is approximately
    A) 0.9 percent.
     B) 1 percent.
    C) 10 percent.
    D) 100 percent.

Answer: C
Topic: Inflation Rate
Skill: Analytical
Question history: Modified 10th edition
AACSB: Analytical Skills

38) In the above table, the inflation rate between 2009 and 2010 is approximately
    A) 9 percent.
     B) 10 percent.
    C) 100 percent.
    D) 110 percent.

Answer: B
Topic: Inflation Rate
Skill: Analytical
Question history: Modified 10th edition
AACSB: Analytical Skills

39) In the above table, the inflation rate between 2010 and 2011 is approximately
    A) 10 percent.
     B) 11 percent.
    C) 121 percent.
    D) None of the above answers is correct.

Answer: A
Topic: Inflation Rate
Skill: Analytical
Question history: Modified 10th edition
AACSB: Analytical Skills

Year	Price index	Inflation rate (percent)
1	100	
2	117	A
3	125	B
4	120	C
5	D	8.3
6	150	E

40) In the table above, what inflation rate belongs in space A?
   A) 17.0 percent
   B) 6.8 percent
   C) 8.3 percent
   D) –4.0 percent

Answer: A
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

41) In the table above, what inflation rate belongs in space B?
   A) 17.0 percent
   B) 6.8 percent
   C) 8.3 percent
   D) –4.0 percent

Answer: B
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

42) In the table above, what inflation rate belongs in space C?
   A) 17.0 percent
   B) 6.8 percent
   C) 8.3 percent
   D) –4.0 percent

Answer: D
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

43) In the table above, what price level belongs in space D?
- A) 125
- B) 130
- C) 140
- D) 145

Answer: B
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

44) In the table above, what inflation rate belongs in space E?
- A) 17.0 percent
- B) 6.8 percent
- C) 8.3 percent
- D) 15.4 percent

Answer: D
Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

	2010		2011	
Item	Quantity	Price	Quantity	Price
Books	10	$30	8	$50
Pens	20	$1	15	$2

45) In 2010, consumers in Dexter consumed only books and pens. The prices and quantities for 2010 and 2011 are listed in the table above. The reference base period for Dexter's CPI is 2010. What is the cost of the CPI basket in 2010?
- A) $430
- B) $335
- C) $320
- D) $540

Answer: C
Topic: The Consumer Price Index
Skill: Analytical
Question history: Modified 10th edition
AACSB: Analytical Skills

46) In 2010, consumers in Dexter consumed only books and pens. The prices and quantities for 2010 and 2011 are listed in the table above. The reference base period for Dexter's CPI is 2010. What is the CPI in 2010?
   A) 320
    B) 1.00
   C) 3.20
   D) 100

Answer: D
Topic: The Consumer Price Index
Skill: Analytical
Question history: Modified 10th edition
AACSB: Analytical Skills

47) In 2010, consumers in Dexter consumed only books and pens. The prices and quantities for 2010 and 2011 are listed in the table above. The reference base period for Dexter's CPI is 2010. What is the cost of the CPI basket in 2011?
   A) $430
    B) $335
   C) $320
   D) $540

Answer: D
Topic: The Consumer Price Index
Skill: Analytical
Question history: Modified 10th edition
AACSB: Analytical Skills

48) In 2010, consumers in Dexter consumed only books and pens. The prices and quantities for 2010 and 2011 are listed in the table above. The reference base period for Dexter's CPI is 2010. What is the CPI in 2011?
   A) 59
    B) 129
   C) 169
   D) 102

Answer: C
Topic: The Consumer Price Index
Skill: Analytical
Question history: Modified 10th edition
AACSB: Analytical Skills

49) In 2010, consumers in Dexter consumed only books and pens. The prices and quantities for 2010 and 2011 are listed in the table above. The reference base period for Dexter's CPI is 2010. What is the inflation rate in 2011?
   A) 69 percent
    B) zero
   C) 31 percent
   D) 2 percent

Answer: A
Topic: Inflation Rate
Skill: Analytical
Question history: Modified 10th edition
AACSB: Analytical Skills

50) If this year's price level exceeds last year's,
    A) the inflation rate between these years has been positive.
    B) the inflation rate is accelerating.
    C) deflation is occurring.
    D) no relative price changes are occurring.

Answer: A
Topic: Inflation and the Price Level
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

51) If the price level for the last three months has been 112, 125, and 126, we would say
    A) inflation has been constant over the three months.
    B) inflation was more rapid between the first and second month than between the second and
       third month.
    C) inflation was less rapid between the first and second month than between the second and
       third month.
    D) inflation has steadily increased over the three months.

Answer: B
Topic: Inflation and the Price Level
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

52) Assume the inflation rate falls from 4 percent to 2 percent. This means that
    A) the price level has fallen.
    B) the price level is increasing more slowly.
    C) the economy is experiencing deflation.
    D) real GDP is decreasing.

Answer: B
Topic: Inflation and the Price Level
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

53) If the inflation rate is negative, the price level in an economy is
    A) falling.
    B) rising slowly.
    C) constant.
    D) rising rapidly.

Answer: A
Topic: Inflation and the Price Level
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

54) Suppose that the price level was 100 in 2008, 110 in 2009, and 130 in 2010. Over these three years,
    A) deflation occurred at an accelerating rate.
    B) the inflation rate was positive but slowing.
    C) prices were stable.
    D) the inflation rate was positive and accelerating.

Answer: D
Topic: Inflation and the Price Level
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

55) In China, suppose that the price level was 100 in 2007, 110 in 2008, 120 in 2009, and 130 in 2011.
    Over these three years,
    A) the inflation rate accelerated.
    B) inflation did not occur.
    C) prices were stable.
    D) the inflation rate was positive.

Answer: D
Topic: Inflation and the Price Level
Skill: Analytical
Question history: Modified 10th edition
AACSB: Analytical Skills

56) In the United States, the inflation rate has
    A) remained almost constant over the past 25 years.
    B) risen and fallen since the 1970s.
    C) fallen as a result of OPEC oil price hikes.
    D) risen constantly over the past 30 years.

Answer: B
Topic: Inflation in the United States
Skill: Recognition
Question history: Modified 10th edition
AACSB: Reflective Thinking

57) Looking at inflation rates in the United States since the 1970s we see that
    A) inflation fell the most during the 1970s productivity slowdown.
    B) the highest inflation rates were the double digits during the 1990s.
    C) the inflation rate increased with the increased growth of the 1990s.
    D) the 1970s experienced the highest inflation rates.

Answer: D
Topic: Inflation in the United States
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

58) The biases in the CPI include the
   A) old goods, unemployment, and inflation biases.
   B) new goods, quality change, and substitution biases.
   C) old goods, new goods, and quality change biases.
   D) substitution, new goods, and old goods biases.

Answer: B
Topic: Biased CPI
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

59) The bias in the CPI typically
   A) overstates inflation.
   B) understates inflation.
   C) about half the time overstates and about half the time understates the inflation rate.
   D) cannot be measured or estimated.

Answer: A
Topic: Biased CPI
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

60) Which of the following means that the CPI overstates the actual inflation rate?
   A) new goods bias
   B) quality change bias
   C) outlet substitution bias
   D) All of the above cause the CPI to overstate inflation

Answer: D
Topic: Biased CPI
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

61) The biases in the CPI are
   A) not important since they are so small.
   B) important only to economists, not the real world.
   C) important since they effect nearly 1/3 of federal government spending.
   D) not important although they are large.

Answer: C
Topic: Biased CPI
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

62) The currently used method for calculating the CPI
   A) accounts for people increasing consumption of a good that falls in relative price.
   B) probably overstates inflation by about 1 percentage point.
   C) has no effect on government expenditures.
   D) None of the above answers are correct.

Answer: B
Topic: Biased CPI
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

63) Because of the biases in calculating the CPI, actual inflation is
   A) accurately measured.
   B) less than the measured inflation rate by about 1 percent per year.
   C) more than the measured inflation rate by about 1 percent per year.
   D) more than the measured inflation rate by about 1 percent per month.

Answer: B
Topic: Biased CPI
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

64) The currently used method for calculating the CPI
   A) accounts for people increasing consumption of a good that falls in relative price.
   B) probably overstates inflation by about 1 percentage point.
   C) has no effect on government expenditures.
   D) None of the above answers are correct.

Answer: B
Topic: Biased CPI
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

65) An example of the new goods bias in the CPI is the
   A) introduction of higher quality brakes as standard equipment on new cars.
   B) introduction of hybrid automobiles, vehicles that were not made until recently.
   C) decreasing popularity of SUVs as the price of gasoline has risen.
   D) switch from traditional car dealerships to low–cost Internet car buying services.

Answer: B
Topic: Biased CPI, New Goods Bias
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

66) If a new and better good replaced an older and less expensive good, then the price level measured by the CPI _____.
    A) is lower than the actual price level
    B) is higher than the actual price level
    C) might be either higher or lower than the actual price
    D) is the same as the actual price level because it measures the prices of the actual goods.

Answer: B
Topic: The Biased CPI, New Goods Bias
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

67) Price indexes can overstate inflation because they
    A) omit some quality improvements.
    B) do not contain the prices of any used goods.
    C) do not contain the prices of foreign goods.
    D) do not contain the prices of services.

Answer: A
Topic: Biased CPI, Quality Improvement
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

68) As currently calculated, the CPI tends to overstate the true inflation rate because
    A) we cannot know what the true inflation rate is.
    B) it fails to correctly measure quality changes for some products.
    C) the market basket selected is inappropriate.
    D) the market basket fails to weigh housing costs sufficiently.

Answer: B
Topic: Biased CPI, Quality Improvement
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

69) The technique currently used to calculate the CPI implicitly assumes that over time consumers buy
    A) relatively more of goods whose relative prices are rising.
    B) relatively less of goods whose relative prices are rising.
    C) the same relative quantities of goods as in a base year.
    D) goods and services whose quality improves at the rate of growth of real income.

Answer: C
Topic: Biased CPI, Commodity Substitution Bias
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

70) Substitution bias in the CPI refers to the fact that the CPI
    A) takes into account the substitution of goods by consumers when relative prices change.
    B) takes no account of the substitution of goods by consumers when relative prices change.
    C) substitutes quality changes whenever they occur without taking account of the cost of the quality changes.
    D) substitutes relative prices for absolute prices of goods.

Answer: B
Topic: Biased CPI, Commodity Substitution Bias
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

71) At the end of last year, the CPI equaled 120. At the end of this year, the CPI equals 132. What is the inflation rate over this year?
    A) 6 percent
    B) 10 percent
    C) 12 percent
    D) None of the above answers are correct because more information is needed to calculate the inflation rate.

Answer: B
Topic: Study Guide Question, Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

72) If last year's price level was 100 and this year's price level is 114, over the year the inflation rate has been
    A) 14 percent.
    B) 114 percent.
    C) 12 percent
    D) 100 percent.

Answer: A
Topic: Study Guide Question, Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

73) Of the following sequences of price levels, which correctly represents a 5 percent inflation rate?
    A) 100, 100, 100, 100
    B) 100, 105, 105, 105
    C) 100, 105, 110, 115
    D) 100, 105, 110.25, 115.76

Answer: D
Topic: Study Guide Question, Inflation and the Price Level
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

74) The commodity substitution bias is that
    A) consumers substitute high−quality goods for low−quality goods.
     B) government spending is a good substitute for investment expenditures.
    C) national saving and foreign borrowing are interchangeable.
    D) consumers decrease the quantity they buy of goods whose relative prices rise and increase
       the quantity of goods whose relative price falls.

Answer: D
Topic: Study Guide Question, Commodity Substitution Bias
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

4 News Based Questions

1) The *New York Times* reported in november 2008 that 240,000 additional people lost their jobs
   which increased the unemployment rate to 6.5 percent. In addition, it was noted that a large
   number of college graduates were "taking jobs that do not require a college degree." It was also
   expected that "teens will be thrown out of the labor market....causing youths to miss experience"
   that could help them prepare for higher−skilled jobs.

   The article reflects the idea that unemployment is a problem because it results in
       A) a loss of human capital.
        B) fewer discouraged workers.
       C) a loss of income.
       D) a decrease in the labor force.

Answer: A
Topic: Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Communication

2) The table below shows data regarding Germany's labor market.

Year	Labor Force (millions)	Number of Employed (millions)	Population (millions)
2006	43.7	39.01	82.3
2007	43.7	39.06	82.2
2008	43.6	39.8	82.1

   The data show that Germany's unemployment rate in 2007 was
       A) 9.8 percent.
        B) 8.4 percent
       C) 5.6 percent
       D) More information is needed to answer this question.

Answer: B
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

3) The table below shows data regarding Germany's labor market.

Year	Labor Force (millions)	Number of Employed (millions)	Population (millions)
2006	43.7	39.01	82.3
2007	43.7	39.06	82.2
2008	43.6	39.8	82.1

The data show that Germany's unemployment rate between 2007 and 2008
   A) increased.
   B) decreased
   C) stayed the same.
   D) cannot be determined because the population decreased.

Answer: B
Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

4) The table below shows data regarding Germany's labor market.

Year	Labor Force (millions)	Number of Employed (millions)	Population (millions)	Working–age Population (millions)
2006	43.7	39.01	82.3	54.9
2007	43.7	39.06	82.2	54.7
2008	43.6	39.8	82.1	54.6

The data show that Germany's employment–to–population ratio is _____ in 2007.
   A) 92 percent
   B) 47.5 percent
   C) 67 percent
   D) 80 percent

Answer: C
Topic: Employment–to–Population Ratio
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

5) The table below shows data regarding Germany's labor market.

Year	Labor Force (millions)	Number of Employed (millions)	Population (millions)	Working–age Population (millions)
2006	43.7	39.01	82.3	54.9
2007	43.7	39.06	82.2	54.7
2008	43.6	39.8	82.1	54.6

The data show that Germany's labor force participation rate is _____ in 2007.
  A) 80 percent
   B) 47.5 percent
  C) 67 percent
  D) 78 percent

Answer: A
Topic: Labor Force Participation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

6) An article in the Financial Times reports on a trend by college students to take a year off after graduation given the lack of success in finding a job. "In a survey published last month by TMP Worldwide... 54 per cent of the final–year undergraduate interviewees were thinking about taking a gap year and one in 10 was planning to wait for a year to escape the financial chaos and wait for the economy to either improve or for the picture to become clearer."

www.ft.com, 10/13/2008

These choices add to the fluctuations seen in the _____ as workers leave the labor force given their unsuccessful job searches.
  A) labor force participation rate
   B) employment rate
  C) efficiency wage
  D) inflation rate

Answer: A
Topic: Labor Force Participation Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Communication

7) NPR ("Certain Green Industries Have Job Openings", November 12, 2008) reported on a story about wind turbine manufacturers in Ohio having trouble finding skilled workers. The report noted that as a result tens of thousands of people having been laid off, there is "a huge pool of job–seekers." The firms claim to "offer good pay and benefits." A representative from the United Steelworkers claim that their union members have easily transferrable skills, but the pay is too low, around $30,000 annually. A manager at Apollo Alliance says that workers in the new industry need different skills than those in the old steel industry.

The type of unemployment described in the story is _____ unemployment.
   A) cyclical
   B) structural
   C) frictional
   D) efficiency wage

Answer: B
Topic: Unemployment Types
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Communication

8) Reflecting the state of the economy in 2008, the Bureau of Labor Statistics reported in October that over 1000 jobs were lost in the legal services sector. For example, one firm in Chicago stated that it had fired 54 lawyers in 2008. A representative from the firm stated that most had worked in its real estate division.

www.nytimes.com, 11/11/2008

The lawyers that were fired are an example of _____ unemployment.
   A) frictional
   B) structural
   C) efficiency wage
   D) cyclical

Answer: D
Topic: Cyclical Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

9) In late 2006, the unemployment rate increased from 4.4 percent to 4.5 percent. It was reported that new jobs were created in several sectors including accounting, engineering services, computer design and education. These increases offset job losses in the construction and automobile industries. At the
same time, the natural unemployment rate was estimated to be about 5.5 percent

www.nytimes.com, 12/9/2006

Based on the story, the labor market reflects
   A) a positive output gap.
   B) a negative output gap.
   C) cyclical unemployment.
   D) efficiency wages.

Answer: A
Topic: Output Gap
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

10) Inflation in Vietnam rose to 27 percent in July 2008— the highest inflation rate in Asia. "Squeezed on all sides, people are cutting back on food, limiting travel, looking for second jobs, delaying major purchases and waiting for the cost of a wedding to go down before marrying...Given this slowdown, Vietnam... is scaling back its plans for growth and economic development. ... Some are losing confidence in the ability of the government to manage the economy. And rumors of price increases have caused panic buying of fuel and rice."

www.nytimes.com, 8/23/2008

The story provides an example of how inflation
   A) redistributes income.
   B) diverts resources from production.
   C) leads to increases in the consumer price index.
   D) can lead to changes in the CPI market basket.

Answer: B
Topic: Inflation
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

11) In 2000, you could buy a Cadillac DTS for $45,000. In 2011, the Cadillac DTS sold for $55,000. While both models include anti–lock brakes and air bags (along with other similar features), the 2011 model also includes satellite radio and new technology that provides improved gas mileage and safer driving. If the Cadillac DTS was included in the CPI basket, it would create
   A) a downward bias in the inflation rate.
   B) an upward bias in the CPI as a result of quality change bias.
   C) an upward bias in the CPI as a result of commodity substitution bias.
   D) a downward bias in the CPI as a result of new goods bias.

Answer: B
Topic: Biased CPI, Quality Improvement
Skill: Conceptual
Question history: Modified 10th edition
AACSB: Reflective Thinking

12) The table below shows the price index for Zimbabwe starting in 2000.

Year	Price Index
2000	100.0
2001	173.4
2002	404.37
2003	1880.5
2004	8462.2
2005	28,586.6
2006	319,222.5

www.econstats.com

Which of the following statements correctly describe the behavior of prices in Zimbabwe?
i.   The cost of the CPI basket increased.
ii. The inflation rate was 73.4 percent between 2000 and 2001.
   A) i only
   B) ii only
   C) both i and ii
   D) neither i nor ii

Answer: C
Topic: Inflation
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

13) The table below shows the price index for Zimbabwe starting in 2000.

Year	Price Index
2000	100.0
2001	173.4
2002	404.37
2003	1880.5
2004	8462.2
2005	28,586.6
2006	319,222.5

www.econstats.com

The data show that
   A) the inflation rate between the base year and 2001 is 73.4 percent.
   B) new goods bias and quality change bias are responsible for most of Zimbabwe's inflation.
   C) the inflation rate between 2005 and 2006 was 319.2 percent.
   D) while Zimbabwe experienced a high price level, it did not experience high inflation.

Answer: A
Topic: Inflation
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

14) The table below shows the price index for China starting in 2000.

Year	Price Index
2000	100.0
2001	100.73
2002	99.95
2003	101.12
2004	105.06
2005	106.95
2006	108.52

www.econstats.com

Which of the following statements correctly describe the behavior of prices in China?
   A) The cost of the CPI basket decreased in 2002.
   B) China experienced a high price level and high inflation.
   C) Inflation reached 73% between the base year and 2001.
   D) The inflation rate between 2005 and 2006 was 14.4 percent.

Answer: A
Topic: Inflation
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

15) The table below shows the price index for China starting in 2000.

Year	Price Index
2000	100.0
2001	100.73
2002	99.95
2003	101.12
2004	105.06
2005	106.95
2006	108.52

www.econstats.com

The inflation rate between 2004 and 2005 was
   A) 3.9 percent
   B) 2.8 percent
   C) 1.8 percent
   D) 0.7 percent.

Answer: C
Topic: Inflation
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

16) ABC news in Australia reported that the average annual wage in 2008 was $13,308. To calculate the real wage rate in Australia, you would need to know
    A) Australia's inflation rate between 2007 and 2008.
    B) Australia's price level in 2008.
    C) the core inflation rate in Australia in 2008.
    D) the exchange rate between the US dollar and the Australian dollar.

Answer: B
Topic: Real Wage Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

17) The table below shows Vietnam's price index between 2004 and 2007.

Year	Price Index
2004	115.15
2005	124.65
2006	134
2007	145.12

www.econstats.com

From the data, we can conclude that
    A) the inflation rate 2005 and 2006 was 7.5 percent.
    B) food and energy prices in Vietnam were increasing between 2004 and 2007.
    C) commodity substitution bias occurred over the four years.
    D) deflation occurred between 2005 and 2006 as price increased more slowly than in 2004.

Answer: A
Topic: Inflation
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

5 Essay Questions

1) Why is unemployment a problem?

Answer: Unemployment is a problem for both the nation and for the unemployed worker. For the nation, unemployment represents lost production and lost incomes. The lost income is also a major problem for the unemployed worker. In the long run, the worker also suffers a loss of human capital which can permanently damage the worker's future job prospects.
Topic: Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Communication

2) How does the Current Population Survey determine if a person should be counted in the labor force?

Answer: To be in the labor force, a person must either be employed or unemployed. To be counted as "employed," in the week prior to the survey the person must either have worked for pay for one hour or more or else worked without pay for fifteen hours or more in a family–owned business or else been temporarily absent from his or her job. To be counted as unemployed in the survey, the person must have had no job, been available for work, and either made specific efforts to find work within the previous four weeks or else be waiting to be recalled to a job from which they were laid off.

Topic: Population Survey
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Communication

3) How is the unemployment rate calculated? Include in your answer the process by which the U.S. Census Bureau classifies the data it collects in its Current Population Survey.

Answer: The U.S. Census Bureau conducts the Current Population Survey which asks questions about the age and employment status of household members. The population is divided into the working–age population (everyone 16 or older who is available to work) and all the others. The working age population is divided into the labor force and those not in the labor force. The labor force includes all those who are working (either part–time or full–time) and those who are unemployed. The unemployment rate is the ratio of the unemployed to the labor force multiplied by 100 to convert it into a percentage.

Topic: Unemployment Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Communication

4) The current U.S. population is about 300 million yet the current U.S. labor force is only about 150 million. What subtractions are made from the population number to set it equal to the labor force?

Answer: The population is first reduced by eliminating those who are less than 16 years of age or institutionalized. Then those who are neither working nor looking for work are eliminated. This leaves just those who are employed or unemployed. These two groups together comprise the labor force.

Topic: Employment Calculations
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Communication

5) What is the definition of the unemployment rate? How are part–time workers and discouraged workers treated when calculating the unemployment rate?

Answer: The definition of the unemployment rate is [(number of unemployed) ÷ (labor force)] × 100. In this calculation, the labor force equals the sum of employed plus unemployed people. Part–time workers are counted as employed. Thus part–time workers are counted in the labor force but are <u>NOT</u> counted as unemployed. Discouraged workers are people who have stopped looking for work and so are not in the labor force. Hence, when calculating the unemployment rate, discouraged workers are counted in neither the number of unemployed nor in the labor force.

Topic: Unemployment Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Communication

6) How does the unemployment rate change in a recession and in an expansion?

Answer: During a recession, the unemployment rate generally increases. During an expansion, the unemployment rate generally decreases.

Topic: Unemployment Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

7) Define the unemployment rate and labor–force participation rate. Discuss the differences between these two rates.

Answer: The unemployment rate is defined as [(number of unemployed) ÷ (labor force)] × 100. and the labor force participation rate is defined as is [(labor force) ÷ (working–age population)] × 100. The two measures give different perspectives on the labor market. The labor force participation rate tells the percentage of the working–age population that is either working or is available for work. The unemployment rate tells the percentage of the people working or available for work (the labor force) who do not have jobs.

Topic: Unemployment Rate and Labor Force Participation Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Communication

8) What is a "marginally attached worker"?

Answer: A marginally attached worker is a person without a job, who is available and willing to work, but who has stopped looking in the recent past. One type of marginally attached worker is a discouraged worker. Essentially, a discouraged worker is someone who wants a job but has grown so "discouraged" about finding one, he or she has stopped looking.

Topic: Marginally Attached Workers
Skill: Conceptual
Question history: New 10th edition
AACSB: Reflective Thinking

9) What is a discouraged worker? How do they affect the unemployment rate?

Answer: A discouraged worker is a person without a job, who is available and willing to work, but who has not made specific efforts to find a job within the past four weeks. Essentially, a discouraged worker is someone who wants a job but has grown so "discouraged" about finding one, he or she has stopped looking. Discouraged workers are not in the labor force so in one sense they do not affect the unemployment rate. However, if they re–enter the labor force to look for work, the unemployment will increase because while they are searching they are now counted among the ranks of the unemployed.

Topic: Discouraged Workers
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Communication

10) Explain how the labor force participation rate and the unemployment rate change in a recession.

Answer: The labor force participation rate tends to decrease during a recession as more workers become discouraged. The unemployment rate increases during a recession because there are fewer jobs.

Topic: Labor Market in a Recession
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

11) List and define the three types of unemployment.

Answer: The three types are frictional, structural and cyclical. Frictional unemployment is defined as the normal turnover in the labor market of workers entering and leaving the work force. Structural unemployment is caused by technological change or international competition that causes jobs to disappear. Cyclical unemployment is caused by business cycle fluctuations that change the unemployment rate.

Topic: Types of Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

12) What are the three types of unemployment and how do they change over the business cycle?

Answer: The three types of unemployment are frictional, structural, and cyclical. Of these three types, the first two—frictional and structural unemployment—have no strong relationship to the business cycle. The third type, cyclical unemployment, however is the result of the business cycle. When the economy is in a recession and people lose their jobs as a result of the recession, the unemployed workers are cyclically unemployed. Conversely, when the economy is an expansion, cyclical unemployment decreases. Hence, cyclical unemployment increases during a recession and decreases during an expansion.

Topic: Types of Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Communication

13) Give an example of a frictionally unemployed person.

   Answer: A person who is without a job because of a normal labor market turnover is frictionally
            unemployed. For instance, a student who just graduated from school and is looking for a
            job is frictionally unemployed as is a worker who quit to look for a better job.
   Topic: Frictional Unemployment
   Skill: Conceptual
   Question history: Previous edition, Chapter 5
   AACSB: Reflective Thinking

14) Define and give an example of how a spell of frictional unemployment can begin.

   Answer: Frictional unemployment is the unemployment resulting from normal turnover in the
            labor market. For instance, there are always people entering or reentering the labor force
            (entrants and reentrants) and while these people look for work, they are frictionally
            unemployed. Similarly, there are always some people who quit their jobs to look for
            something better, and these people are frictionally unemployed. And, there is always a
            normal ebb and flow among firms as some gain sales while others lose them. The losers
            may release workers and these people also are frictionally unemployed.
   Topic: Frictional Unemployment
   Skill: Conceptual
   Question history: Previous edition, Chapter 5
   AACSB: Reflective Thinking

15) Can frictional unemployment ever be totally eliminated? Explain your answer.

   Answer: Frictional unemployment arises from normal labor market turnover. Because this type of
            unemployment is associated with normal changes, it is impossible to be eliminated.
            Indeed, some frictional unemployment is purely voluntary, with these unemployed
            workers choosing to become unemployed because they expect to find a job that is more
            satisfying.
   Topic: Frictional Unemployment
   Skill: Conceptual
   Question history: Previous edition, Chapter 5
   AACSB: Reflective Thinking

16) Explain the difference between frictional and structural unemployment.

   Answer: Frictional unemployment is more short term and is associated with people changing jobs
            and entering the labor force. Structural unemployment is more long term and is
            associated with changes in the structure of the economy that require people to learn new
            skills.
   Topic: Structural Unemployment
   Skill: Conceptual
   Question history: Previous edition, Chapter 5
   AACSB: Reflective Thinking

17) Give an example of a structurally unemployed person.

   Answer: A person who loses his or her job because his firm had to close because of foreign
            competition or because he or she no longer possesses the skills necessary for a job is
            structurally unemployed.
   Topic: Structural Unemployment
   Skill: Conceptual
   Question history: Previous edition, Chapter 5
   AACSB: Reflective Thinking

18) Define and give an example of how a spell of structural unemployment can begin.

Answer: Structural unemployment arises when changes in technology or international competition changes the skills necessary for jobs or change the location of jobs. For instance, technological change, such as the invention of the personal computer, can switch the skills needed for jobs, say from the ability to repair typewriters to the ability to repair computers. In this case, the people who lose their jobs and do not have the necessary skills to perform the new jobs are structurally unemployed. In addition, there are times when foreign competition causes large downscaling in sectors of the U.S. economy as U.S. firms find that they cannot compete with foreign firms. In this case, the U.S. workers who lose their jobs do not go overseas to take jobs in the expanding foreign companies, so the workers are structurally unemployed.

Topic: Structural Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

19) Give an example of a cyclically unemployed person.

Answer: A person who loses his or her job because of a recession is cyclically unemployed.
Topic: Cyclical Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

20) Explain what type of unemployment changes with the business cycle and how it changes.

Answer: Cyclical unemployment is the unemployment that changes with the business cycle. Cyclical unemployment rises when the economy is in the recession part of a business cycle and decreases when the economy is in the expansion part of the business cycle.
Topic: Cyclical Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

21) Why is there unemployment even when the economy is at "full employment"?

Answer: There is unemployment even at "full employment" because there always will be unemployment. Unemployment is a natural occurrence in any economy with changes, such as high school or college graduates entering the labor force, or technological advances in one sector, or consumer preferences changing to favor one product over another. Frictional and structural unemployment will always exist. Cyclical unemployment, however, is a different matter. Cyclical unemployment does not seem to have the same degree of inevitability and hence full employment is defined as occurring when cyclical unemployment equals zero.

Topic: Full Employment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Communication

22) What is the relationship between the natural unemployment rate, the unemployment rate, potential GDP, and actual GDP?

Answer: When the economy is at potential GDP, the unemployment rate is the natural unemployment rate. If actual GDP is less than potential GDP, then the unemployment rate exceeds the natural unemployment rate. And if actual GDP exceeds potential GDP, then the unemployment rate is less than the natural unemployment rate.

Topic: Actual and Potential GDP
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

23) Explain the relationship(s) between full employment, cyclical unemployment, the natural unemployment rate, and potential GDP.

Answer: The economy is at full employment when there is no cyclical unemployment. The unemployment rate at full employment is called the natural unemployment rate. Because there is no cyclical unemployment, the natural unemployment rate is comprised of only frictional and structural unemployment. The level of output that the economy would produce if it was at full employment is called potential GDP.

Topic: Actual and Potential GDP
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

24) Consider the following statement: "Real GDP and potential GDP are always equal." Is this statement true or false? Explain your answer.

Answer: Real GDP often differs from potential GDP. Real GDP equals potential GDP only when the economy is at full employment. However, the economy is not always at full employment. When employment is less than full employment, real GDP is less than potential GDP and the economy is in a recession. When employment exceeds full employment, real GDP exceeds potential GDP and the economy is in an expansion.

Topic: Actual and Potential GDP
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

25) What is potential GDP and what is the relationship between actual and potential real GDP?

Answer: The quantity of GDP at full employment is called potential GDP. Over the business cycle, real GDP fluctuates around potential GDP. When the unemployment rate is higher than the natural rate, real GDP is less than potential GDP and when the unemployment rate is lower than the natural rate, real GDP exceeds potential GDP.

Topic: Actual and Potential GDP
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

26) Explain the relationship between real GDP and potential GDP and between the unemployment rate and the natural unemployment rate as the economy moves through a business cycle.

Answer: Potential GDP is the level of GDP when the economy is at full employment. Real GDP is the level of GDP and can be above or below potential GDP depending on whether employment is above or below full employment. The natural unemployment rate is the unemployment rate when the economy is at full employment. The unemployment rate can be above or below the natural unemployment rate. In a recession, real GDP is less than potential GDP and unemployment exceeds the natural rate. In an expansion, real GDP is greater than potential GDP and unemployment is less than the natural rate.

Topic: Actual and Potential GDP
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

27) What is the relationship over the business cycle of potential GDP and real GDP?

Answer: The level of output that the economy would produce if it was at full employment is called potential GDP. However, the economy is not always at full employment. In a recession, employment is less than full employment and so real GDP is less than potential GDP. And, in an expansion, employment can exceed full employment so that real GDP exceeds potential GDP.

Topic: Actual and Potential GDP
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

28) What are the three stages of constructing the CPI?

Answer: The first stage is to select the CPI basket. The basket is determined by surveying the spending habits of consumers by conducting a Consumer Expenditure Survey. The second stage is to check the prices of about 80,000 goods and services in 30 metropolitan areas. This checking is done on a monthly basis. The third stage is to calculate the CPI itself. To calculate the CPI, a period of time is selected as the base reference period and the cost of the CPI basket using the prices from that period is computed. Then the CPI in any other month equals 100 times the quotient of the cost of the basket using current–period prices divided by the cost of the basket in the reference base period.

Topic: Consumer Price Index
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

29) "The market basket used to calculate the CPI is revised monthly to more accurately depict consumers' choices. The price data for the CPI are collected every month." Are the previous sentences true or false?

Answer: The first sentence is false and the second is true. The point of the CPI is to determine how the prices of a fixed basket of goods and services change over time, so the CPI basket is revised only infrequently. However, the prices for the goods and services in the basket are collected monthly so that the CPI can be computed monthly.

Topic: Consumer Price Index
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

30) Assume that after you graduate, you move to a simple economy in which only three goods are produced and consumed: fish, fruit, and meat. Suppose that on January 1, fish sold for $2.50 per pound, meat was $3.00 per pound, and fruit was $1.50 per pound. At the end of the year, you discover that the catch was low and that fish prices had increased to $5.00 per pound, but fruit prices stayed at $1.50 per pound, and meat prices had actually fallen to $2.00. Can you say what happened to the overall CPI, in terms of whether it increased, decreased, or stayed the same? Do you have enough information to calculate the inflation rate? Note, this problem requires no calculation; just state and explain your answers.

Answer: You cannot say what happened to the CPI because you do not know the quantities in the basket. You also do not have enough information to determine the inflation rate because you need the CPI at the beginning and the end of the year to compute the inflation rate.

Topic: Consumer Price Index
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

31) What is inflation and how is it measured using the Consumer Price Index?

Answer: The inflation rate is the percentage change in the price level from one year to the next. In other words, it is the growth rate of the price level. The CPI is a measure of the price level and so can be used to calculate the inflation rate.

Topic: Inflation Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

32) List the four sources of bias in the CPI and briefly explain them.

Answer: There are four potential biases. First is the new goods bias, which occurs when new, higher priced goods replace older goods. Second is the quality change bias, which occurs when the CPI fails to take account of quality improvements that raise prices. Third is the commodity substitution bias, which occurs when consumers shift their purchases away from goods whose relative prices rise toward lower priced goods. Last is the outlet substitution bias, which because with higher prices, people switch to low–cost discount stores.

Topic: Biased CPI
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

33) Is the CPI a biased measure of the inflation rate? Explain your answer.

Answer: There are at least four sources of bias in the CPI measure. The first bias is the new goods bias, which refers to the fact that new goods are continuously replacing old ones. Because the new goods are often both of higher quality and higher priced, their introduction complicates measuring the CPI. The new goods bias biases the CPI upwards. Second, the CPI is not always adjusted for improvements in the quality of the products, which is the quality change bias. A price hike that reflects a quality increase often is mistakenly recorded as only a price hike, with no recognition given to the higher quality. Third, consumers substitute relatively lower priced goods for goods that increase in price, which is called commodity substitution. However, the CPI doesn't take this substitution into account, thereby giving rise to the commodity substitution bias. Fourth, when faced with price hikes, consumers switch away from buying at full service stores to buying from discount stores because the prices in the discount stores are lower. Once again, the CPI does not take account of this outlet substitution and so the CPI suffers from the outlet substitution bias.

Topic: Biased CPI
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Communication

34) "The new goods bias puts a downward bias into the CPI and its measure of the inflation rate." Is the previous sentence correct or not? Explain your answer.

Answer: The sentence is false because the new goods bias puts an upward bias into the CPI and its measure of the inflation rate. The new goods bias occurs when new, higher quality and more expensive goods replace older, lower quality and less expensive goods. Part of the expense of the new goods is to pay for the higher quality of the new goods. But, if the price is not adjusted (downward) to take account of the higher quality, incorporating the new good into the CPI leads to an upward bias in the prices that go to make up the CPI and hence also an upward bias in the inflation rate.

Topic: The Biased CPI, New Goods Bias
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Communication

35) What is the commodity substitution bias? What effect does it have on the CPI?

Answer: The commodity substitution bias refers to the fact that people switch (substitute) away from goods and services that have risen in price and buy more goods and services that have not risen as much in price. Thus if then price of Coke rises 20 while Pepsi's price does not change, many people will substitute Pepsi for Coke. The commodity substitution bias in the CPI occurs because the CPI uses a fixed basket of goods and services. So, if the basket contains, say, 10 bottles of Coke and 8 bottles of Pepsi, the basket will not change even though people change their buying patterns in favor of Pepsi and away from Coke. The change in people's buying patterns offsets, at least to a degree, the effect of higher prices. In the Coke/Pepsi case, by purchasing more Pepsi and less Coke, people have insulated themselves from part of the effect of the higher price of Coke. However the CPI does not take this change into account and so the CPI reflects the full effect of the higher price of Coke, thereby overstating the actual inflation that people experience.

Topic: The Biased CPI, Commodity Substitution Bias
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Communication

36) "The bias in the CPI distorts private contracts because a future payment that is linked to the CPI will be raised above the true increase in the price level." Is the previous sentence true or false?

Answer: The sentence is correct. The fact that the payments increase by more than the true increase in the price level means that one party to the contract benefits more, the higher the inflation rate.

Topic: The Biased CPI, Private Contracts
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

37) Explain the CPI bias and how it can distort private contracts and increase government outlays.

Answer: The CPI bias is the point that the CPI overstates the true inflation rate. The amount of the bias has been estimated at 1.1 percentage points per year. Thus when workers sign a contract that links their wages to the CPI in order to adjust the wages to offset inflation, the adjustment is too large. Wages rise by more than is necessary to keep pace with inflation. Thus a contract that might have been designed to keep workers "even" with inflation is distorted so that workers actually gain. Similarly, many government outlays, such as Social Security, are linked to the CPI. Thus the adjustment in these expenditures exceeds the amount necessary for inflation, and hence the amount of the government's outlays increases by more than is appropriate for inflation.

Topic: The Biased CPI, Government Outlays
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Communication

38) What, if any, is the impact of the CPI bias on government spending?

Answer: About one–third of government outlays, such as Social Security, are linked to the CPI so that these sources of government spending increase when the CPI increases. Because the CPI overstates the actual inflation rate, government spending increases by more than is warranted by inflation. Hence the CPI bias increases the amount of government outlays.

Topic: The Biased CPI, Government Outlays
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

39) How is the GDP deflator is calculated.

Answer: The GDP deflator equals 100 times the nominal GDP divided by real GDP, or in terms of symbols, the GDP deflator equals (100) × (nominal GDP) ÷ (real GDP).

Topic: GDP Deflator
Skill: Recognition
Question history: Modified 10th edition
AACSB: Analytical Skills

6 Numeric and Graphing Questions

1) The unemployment rate is 6 percent. If the population is 300 million, and the number unemployed is 6 million and the number employed is 94 million, what is the size of the labor force?

Answer: The labor force is the sum of the number of employed people plus the number of unemployed people. Hence the labor force equals 94 million + 6 million = 100 million.

Topic: Population Survey
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

2) Suppose the current unemployment rate is 5 percent, the labor force is 400 million people, the labor force participation rate is 80 percent and the working–age population is 500 million people. What number of people are unemployed?

Answer: The number of unemployed people equals the labor force multiplied by the unemployment rate. So the number of unemployed people is (400 million) × (5 percent) = 20 million people.

Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

3) Suppose that the U.S. population is 275 million. Also assume that the labor force is 135 million and that 130 million people are employed. Calculate the unemployment rate.

Answer: The unemployment rate is (5 million unemployed) ÷ (135 million labor force) × 100 = 3.7 percent.

Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

4) Suppose the population is 220 million people, the labor force is 150 million people, the number of people employed is 130 million and the working–age population is 175 million people. What is the unemployment rate?

Answer: The unemployment rate is (20 million unemployed) ÷ (150 million labor force) × 100 = 13.3 percent.

Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

5) Suppose the working–age population is 150 million, the labor force is 125 million, and employment is 120 million.
   a)   What is the unemployment rate?
   b)   Now suppose that 2 million students graduate from college and begin to look for jobs. What is the new unemployment rate if none of the students have found jobs yet?
   c)   Suppose that all 2 million students find jobs. What is the unemployment rate now?

Answer: a)   The unemployment rate is (5 million unemployed) ÷ (125 million labor force) × 100 = 4.0 percent.
         b)   The unemployment rate is (7 million unemployed) ÷ (127 million labor force) × 100 = 5.5 percent.
         c)   The unemployment rate is (5 million unemployed) ÷ (127 million labor force) × 100 = 3.9 percent.

Topic: Unemployment Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

6) Suppose there are 180 million employed people and 20 million unemployed people.
   a)   What is the unemployment rate?
   b)   Suppose that 5 million unemployed people give up their search for jobs and become discouraged workers. What is the new official unemployment rate?

Answer: a)   The unemployment rate is (20 million unemployed) ÷ (200 million labor force) × 100 = 10.0 percent.
         b)   The unemployment rate is (15 million unemployed) ÷ (195 million labor force) × 100 = 7.7 percent.

Topic: Unemployment Rate and Discouraged Workers
Skill: Analytical
Question history: Modified 10th edition
AACSB: Analytical Skills

7) Consider the following scenario. Initially the economy has 90 million people working, 10 million people unemployed, and 20 million people not in the labor force. Then prospects for the economy improve. Five million people who previously were not in the labor force now join the 10 million previously unemployed in looking for work. For now, the economy remains with 90 million workers. What happens to the unemployment rate?

Answer: The unemployment rate rises from 10.0 percent, (10 million unemployed) ÷ (100 million labor force) × 100, to 14.3 percent, (15 million unemployed) ÷ (105 million labor force) × 100.

Topic: Unemployment Rate and Discouraged Workers
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

Category	Number of people (millions)
Total population	246
Working–age population	207
Labor force	139
Employed	133
Unemployed	6

8) Based on the information in the above table, what is the unemployment rate? What is the labor force participation rate?

Answer: The unemployment rate equals (6 million unemployed) ÷ (139 million labor force) × 100 = 4.3 percent. The labor force participation rate equals (139 million labor force) ÷(207 million working–age population) × 100 = 67.1 percent.

Topic: Unemployment Rate and Labor Force Participation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

9) If the base year CPI basket costs $250 and next year the CPI basket costs $275, what is next year's CPI?

Answer: The CPI equals 100 × ($275/$250) = 110.
Topic: Consumer Price Index
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

Item	Quantity (2010)	Price (2010)
Loaves of bread	20	$3.00
Jugs of soda	20	$2.00

Item	Quantity (2011)	Price (2011)
Loaves of bread	22	$4.00
Jugs of soda	30	$1.50

10) The tables above give the purchases of an average consumer in a small economy. (These consumers purchase only loaves of bread and jugs of soda.) Suppose 2006 is the reference base period.
   a)   What quantities are in the CPI basket?
   b)   What is the cost of the CPI basket using 2010 prices?
   c)   What is the cost of the CPI basket using 2011 prices?
   d)   What is the CPI in 2007?

   Answer: a)   The quantities in the CPI basket are the 2010 quantities because 2010 is the reference base period. So, the quantities are 20 loaves of bread and 20 jugs of soda.
   b)   The cost of the CPI basket using 2010 prices is (20 loaves) × ($3) + (20 jugs) × ($2) = $100.
   c)   The cost of the CPI basket using 2011 prices is (20 loaves) × ($4) + (20 jugs) × ($1.50) = $110. Note that the quantities used in this calculation are the quantities in the CPI basket.
   d)   The CPI in 2011 equals 100 times the cost of the CPI basket at 2011 prices divided by the cost of the CPI basket at 2010 (base period) prices. The CPI equals 100 × ($110) ÷ ($100) = 110.

Topic: Consumer Price Index
Skill: Analytical
Question history: Modified 10th edition
AACSB: Analytical Skills

Item	Quantity (2010)	Price (2010)
Shampoo	25	$2.35
Pizza	15	$7.50

Item	Quantity (2010)	Price (2011)
Shampoo	25	$2.50
Pizza	15	$7.75

11) The tables above give the purchases of an average consumer in a small economy. (These consumers purchase only shampoo and pizza.) Suppose 2010 is the reference base period.
   a)   What is the cost of the CPI basket in 2010 and 2011?
   b)   What is the CPI in 2010 and in 2011?
   c)   What is the inflation rate between 2010 and 2011?

   Answer: a)   For 2010 the CPI basket costs $171.25. For 2011 the CPI basket costs $178.75.
            b)   For 2010, the base period, the CPI is 100.0. For 2011 the CPI is ($178.75/$171.25) × 100, which is 104.4.
            c)   Between the two years the inflation rate is equal to [(104.4 – 100.0)/100] × 100, which is 4.4 percent.

Topic: Consumer Price Index
Skill: Analytical
Question history: Modified 10th edition
AACSB: Analytical Skills

Item	Quantity (2010)	Price (2010)
Meals	100	$10.00
Parking	50	$100.00

Item	Quantity (2011)	Price (2011)
Meals	100	$12.00
Parking	50	$97.50

12) The tables above give the purchases of a typical consumer in a country comprised of one large city. These consumers purchase only restaurant meals and parking. The year 2010 is the reference base period.
a) Find the total cost of the CPI basket for 2010 and 2011.
b) What is the CPI in 2010 and in 2011?
c) What is the inflation rate between 2010 and 2011?

Answer: a)   The total cost of the CPI basket in 2010 equals (100 meals) × ($10) + (50 parking) × ($100) = $6,000. The total cost of the CPI basket in 2011 equals (100 meals) × ($12) + (50 parking) × ($97.50) = $6,075. The quantities are the same in 2010 and 2011. If the quantities differed, the 2010 quantities would be used because 2010 is the base year.
b)   The CPI in 2010 is 100 because 2010 is the base period. (Alternatively, the CPI in 2010 equals 100 × ($6,000)/$6,000) = 100.) The CPI in 2011 equals 100 × ($6075)/($6,000) = 101.25.
c)   The inflation rate between 2010 and 2011 equals 100 × [(101.25 − 100) ÷ (100)] = 1.25 percent.

Topic: Consumer Price Index
Skill: Analytical
Question history: Modified 10th edition
AACSB: Analytical Skills

Item	Quantity (2010)	Price (2010)	Price (2011)
Oranges	50	$0.90	$0.75
Bananas	100	$0.50	$0.95
Chicken	200	$2.00	$2.50
Beef	100	$5.00	$4.80
Bread	300	$1.75	$2.00

13) The table above gives the CPI basket for 2010. Suppose that 2010 is the reference base period.
   a)   What is the cost of the CPI basket in 2010?
   b)   What is the cost of the CPI basket in 2011?
   c)   What is the CPI for 2010?
   d)   What is the CPI for 2011?

   Answer: a)   The cost of the CPI basket in 2010 is $1,520.00.
             b)   The cost of the CPI basket in 2011 is $1,712.50.
             c)   The CPI for 2010 is 100 because 2010 is the base period.
             d)   The CPI for 2011 equals 100 × [$1,712.50 ÷ $1,520.00] = 112.66.
   Topic: Consumer Price Index
   Skill: Analytical
   Question history: Modified 10th edition
   AACSB: Analytical Skills

14) If the CPI this year is 175.2 and next year the CPI is 176.1, what was the inflation rate over the year?

   Answer: The inflation rate equals 100 × [(176.1 – 175.2) ÷ 175.2] = 0.5 percent.
   Topic: Inflation Rate
   Skill: Analytical
   Question history: Previous edition, Chapter 5
   AACSB: Analytical Skills

15) Last year the CPI was 177.1 and this year the CPI is 180.9. What was the inflation rate between these two years?

   Answer: The inflation rate equals 100 ([(180.9 (177.1) ÷ 177.1] = 2.1 percent.
   Topic: Inflation Rate
   Skill: Analytical
   Question history: Modified 10th edition
   AACSB: Analytical Skills

Year	CPI
1997	152.5
1998	157.0
1999	160.6
2000	163.1
2001	166.7
2002	172.3

16) The table above gives the U.S. CPI for six years. Calculate the inflation rates between 1997 to 1998, 1998 to 1999, 1999 to 2000, 2000 to 2001, and 2001 to 2002.

Answer: Between 1997 to 1998, the inflation rate was 3.0 percent. Between 1998 to 1999, the inflation rate was 2.3 percent. Between 1999 to 2000, the inflation rate was 1.6 percent. Between 2000 to 2001, the inflation rate was 2.2 percent. And between 2001 to 2002, the inflation rate was 3.4 percent.

Topic: Inflation Rate
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

17) For each of the following values of nominal GDP and real GDP, calculate the GDP price deflator.
   a) Nominal GDP = $600; real GDP = $800.
   b) Nominal GDP = $900; real GDP = $900.
   c) Nominal GDP = $1,200; real GDP = $1,000

Answer: a)   The GDP deflator equals($600 ÷ $800) × 100, which is 75.
         b)   The GDP deflator equals($900 ÷ $900) × 100, which is 100.
         c)   The GDP deflator equals($1,200 ÷ $1,000) × 100, which is 120.

Topic: GDP Deflator
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

18) If nominal GDP is $230 for a period and real GDP is $200 for the same period, what is the GDP deflator for this period?

Answer: The GDP deflator equals 115, or (100) × ($230) ÷ ($200).

Topic: GDP Deflator
Skill: Analytical
Question history: Previous edition, Chapter 5
AACSB: Analytical Skills

7 True or False

1) The working–age population is divided between those people in the labor force and those people unemployed.

Answer: FALSE
Topic: Population Survey
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

2) One way to be considered unemployed is to be without a job and looking for work.

Answer: TRUE
Topic: Population Survey
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

3) The labor force is the sum of the working–age population and the number of unemployed people.

Answer: FALSE
Topic: Population Survey
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

4) The unemployment rate equals [(the number of people unemployed)/(the population)] × 100.

Answer: FALSE
Topic: Unemployment Rate
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

5) The unemployment rate measures the percentage of the working–age population who can't find a job.

Answer: FALSE
Topic: Unemployment Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

6) The unemployment rate measures the percentage of people in the labor force who can't find a job.

Answer: TRUE
Topic: Unemployment Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

7) Unlike cyclical unemployment, both frictional and structural unemployment rise during recessions and fall during expansions.

Answer: FALSE
Topic: Types of Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

8) Frictional, structural and cyclical unemployment are three classifications of unemployment.

Answer: TRUE
Topic: Types of Unemployment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

9) If a worker is temporarily laid off because the economy is in a recession, frictional unemployment increases.

Answer: FALSE
Topic: Frictional Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

10) Structural unemployment usually lasts longer than frictional unemployment.

Answer: TRUE
Topic: Structural Unemployment
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

11) When the economy is at full employment the unemployment rate equals the natural unemployment rate.

Answer: TRUE
Topic: Full Employment
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

12) The absence of cyclical unemployment means the economy is at the natural unemployment rate.

Answer: TRUE
Topic: Natural Unemployment Rate
Skill: Conceptual
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

13) The natural unemployment rate increased significantly during the 1980s and the 1990s.

Answer: FALSE
Topic: Explaining Employment and Wage Rates
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

14) The CPI is the average price of all goods and services produced within the economy.

Answer: FALSE
Topic: Consumer Price Index
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

15) The commodity substitution bias is that consumers substitute high–quality goods for low–quality goods.

Answer: FALSE
Topic: Commodity Substitution Bias
Skill: Recognition
Question history: Previous edition, Chapter 5
AACSB: Reflective Thinking

8 Extended Problems

Category	Number (millions)
Working age population	222.0
Labor force	146.8
Employment	138.0

1) The Bureau of Labor Statistics reported the data in the table above for October 2003.
   a)   Calculate the number of people unemployed.
   b)   Calculate the number of people who are not in the labor force
   c)   Calculate the unemployment rate.
   d)   Calculate the labor force participation rate.

   Answer: a)   The labor force is the sum of the number of people employed plus the number of unemployed. So the number of people unemployed is the labor force minus the number of employed: 146.8 – 138.0 = 8.8 million.
   b)   The number of people who are not in the labor force is the difference between the working age population and the labor force: 222.0 – 146.8 = 75.2 million.
   c)   The unemployment rate is the number of unemployed as a percentage of the labor force: (8.8/146.8) × 100 = 6.0 percent.
   d)   The labor force participation rate is the percentage of the working–age population who are in the labor force: (146.8/222.0) × 100 = 66.1 percent.
   Topic: Population Survey
   Skill: Analytical
   Question history: Previous edition, Chapter 5
   AACSB: Analytical Skills

2) A labor force survey in Brownland records the following data:
   Employed: 189,000
   Unemployed: 15,000
   Not in the labor force: 84,000
   a)   Calculate the unemployment rate.
   b)   Calculate the labor force participation rate.

   Answer: a)   The unemployment rate is the number of unemployed as a percentage of the labor force. The labor force is the sum of the number of people employed plus the number of unemployed. Brownland's labor force is 189,000 + 15,000 = 204,000. So the unemployment rate is (15,000/204,000) × 100 = 7.4 percent.
   b)   The labor force participation rate is the percentage of the working–age population who are in the labor force. The working age population are those who are in the labor force and those who are not in the labor force. So Brownland's working–age population is 204,000 + 84,000 = 288,000, and its labor force participation rate is (204,000/288,000) × 100 = 70.8 percent.
   Topic: Unemployment Rate and Labor Force Participation Rate
   Skill: Analytical
   Question history: Modified 10th edition
   AACSB: Analytical Skills

3) A typical household in Orangeland consumes only orange juice and shorts. Last year, which was the base year, the household spent $400 on juice and $120 on shorts. In the base year, juice was $2 a bottle and shorts were $10 a pair. This year, juice is $3 a bottle, shorts are $12 a pair, and a typical household has bought 180 bottles of juice and 14 pairs of shorts.
   a) What is the basket used in the CPI?
   b) Calculate the CPI in the current year.
   c) Calculate the inflation rate in the current year.
   d) Is the inflation rate that you've calculated likely to be biased? Why or why not?

   Answer: a)   The CPI basket is the quantities bought in the base year. In the base year, a typical household spent $400 on juice at $2 a bottle, so the quantity of juice bought was $400/$2 = 200 bottles. The household spent $120 on shorts at $10 a pair, so the quantity of shorts bought was $120/$10 = 12. Thus the CPI basket is 200 bottles of juice and 12 pairs of shorts.
   b)   The cost of the CPI basket last year was $400 + $120 = $520. The cost of the CPI basket in the current year is $3 × 200 + $12 × 12 = $744. So the CPI is ($744/$520) × 100 = 143.1
   c)   The inflation rate is the percentage change in the CPI. Because the last year was also the base year, the CPI last year was 100. So the inflation rate for the current year is [(143.1 – 100)/100] × 100, which is 43.1 percent.
   d)   The calculated CPI is likely to overstate inflation because of the commodity substitution bias. The relative price of shorts has fallen from 5 to 4 bottles of juice. This fall led consumers to buy more shorts and less juice. As a result, the actual consumer basket in the current year is less expensive than the CPI basket. The CPI ignores this commodity substitution, and so overstates the inflation rate.

Topic: Consumer Price Index
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