

Unemployment and its Natural Rate

Problem 1. If the natural rate of unemployment is 5.2 percent and the actual rate of unemployment is 5.7 percent, then by definition there is

- (a) cyclical unemployment amounting to 0.5 percent of the labor force.
- (b) frictional unemployment amounting to 0.5 percent of the labor force.
- (c) structural unemployment amounting to 0.5 percent of the labor force.
- (d) search unemployment amounting to 0.5 percent of the labor force.

Problem 2. Suppose that some people are counted as unemployed when, to maintain unemployment compensation, they search for work only at places where they are unlikely to be hired. If these individuals were counted as out of the labor force instead of as unemployed, then

- (a) both the unemployment rate and labor-force participation rate would be higher.
- (b) both the unemployment rate and labor-force participation rate would be lower.
- (c) the unemployment rate would be lower, and the labor-force participation rate would be higher.
- (d) the unemployment rate would be higher, and the labor-force participation rate would be lower.

Problem 3. Brünnhilde is looking for work as a valkyrie. Although her prospects are good, she has not yet taken a job. Woglinde is looking for work as a Rhinemaiden. Every time she shows up for an interview, there are more people looking for work than there are openings. Someone waiting in line with her tells her it has been that way for a long time.

- (a) Brünnhilde and Woglinde are both frictionally unemployed.
- (b) Brünnhilde and Woglinde are both structurally unemployed.
- (c) Brünnhilde is frictionally unemployed, and Woglinde is structurally unemployed.
- (d) Brünnhilde is structurally unemployed, and Woglinde is frictionally unemployed.

Problem 4. An economist claims that changes in information technology and unemployment insurance have reduced unemployment. Which of these changes affect frictional unemployment?

- (a) both the changes in information technology and unemployment insurance
- (b) only the changes in information technology
- (c) only the changes in unemployment insurance
- (d) neither the changes in information technology nor the changes in unemployment insurance

Problem 5. Wages in excess of their equilibrium level help explain

- (a) frictional but not structural unemployment.
- (b) structural but not frictional unemployment.
- (c) both frictional and structural unemployment.
- (d) neither frictional nor structural unemployment.

Problem 6. Workers waiting for jobs to open up is most closely associated with

- (a) cyclical unemployment.
- (b) frictional unemployment.
- (c) seasonal unemployment.
- (d) structural unemployment.

Problem 7. Consider two labor markets in which jobs are equally attractive in all respects other than the wage rate. All workers are equally able to do either job. Initially, both labor markets are perfectly competitive. If a union organizes workers in one of the markets, then the wage rates will tend to

- (a) rise in both markets.
- (b) fall in both markets
- (c) rise for the union jobs, but remain unchanged for the nonunion jobs.
- (d) rise for the union jobs and fall for the nonunion jobs.

Problem 8. Michael Corleone decides to hire some additional workers for his “security” company. The equilibrium wage is \$17 per hour. Efficiency wage theory suggests that it is reasonable for Michael to offer

- (a) \$17 per hour.
- (b) less than \$17 per hour because some people would be willing to work for less.
- (c) less than \$17 an hour to prevent shirking.
- (d) more than \$17 per hour in order to attract a better pool of applicants.

The Monetary System

Problem 9. A double coincidence of wants

- (a) is required when there is no item in an economy that is widely accepted in exchange for goods and services.
- (b) is required in an economy that relies on barter.
- (c) is a hindrance to the allocation of resources when it is required for trade.
- (d) All of the above are correct.

Problem 10. You saved \$500 in currency in your piggy bank to purchase a new laptop. The \$500 you kept in your piggy bank illustrates money's function as a _____. The laptop's price is posted as \$500. The \$500 price illustrates money's function as a _____. You use the \$500 to purchase the laptop. This transaction illustrates money's function as a _____.

- (a) store of value, medium of exchange, unit of account
- (b) store of value, unit of account, medium of exchange
- (c) medium of exchange, unit of account, store of value
- (d) medium of exchange, store of value, unit of account

Problem 11. Which of the following statements is correct?

- (a) All items that are included in M1 are included also in M2.
- (b) All items that are included in M2 are included also in M1.
- (c) Credit cards are included in both M1 and M2.
- (d) Savings deposits are included in both M1 and M2.

Problem 12. When conducting an open-market purchase, the Fed

- (a) buys government bonds, and in so doing increases the money supply.
- (b) buys government bonds, and in so doing decreases the money supply.
- (c) sells government bonds, and in so doing increases the money supply.
- (d) sells government bonds, and in so doing decreases the money supply.

Problem 13. The Fed's policy decisions have an important influence on

- (a) inflation in the long run and employment and production in the short run.
- (b) inflation in the long run and employment and production in the long run.
- (c) inflation in the short run and employment and production in the short run.
- (d) inflation in the short run and employment and production in the long run.

Problem 14. Suppose the banking system currently has \$400 billion in reserves, the reserve requirement is 8 percent, and excess reserves amount to \$5 billion. What is the level of deposits?

- (a) \$5,000 billion
- (b) \$4,937.5 billion
- (c) \$5,062.5 billion
- (d) \$4,995 billion

Problem 15. If the reserve ratio is 4 percent, then \$81,250 of new money can be generated by

- (a) \$325 of new reserves.
- (b) \$3,250 of new reserves.
- (c) \$20,312.50 of new reserves.
- (d) \$2,031,250 of new reserves.

Problem 16. The most common method employed by the Fed to increase the money supply is the

- (a) sale of U.S. government bonds.
- (b) purchase of U.S. government bonds.
- (c) sale of gold.
- (d) increase of the federal debt ceiling.