

University of Lethbridge — Department of Economics
ECON 1012 — Introduction to Microeconomics
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Chapter 21 — Jobs & Infl

- 1) The working-age population is the total number of people
- A) in the labour force, aged 15 years and over, and employed.
 - B) in the labour force.
 - C) in the labour force, aged 15 years and over.
 - D) aged 15 years and over.
 - E) in the labour force who are employed.

Topic: Employment and Unemployment

- 2) Which one of the following people would be counted as unemployed in Canada?
- A) Kathy has stopped looking for work since she was unable to find a suitable job during a one-month search.
 - B) Sharon is a college student with a job.
 - C) Benoit who was laid off when his firm closed down 2 months ago and has not been looking for work as he is going back to school.
 - D) Christos has been laid off from his job a month ago, and has not been looking for a new job as he is waiting for a severance package from his former employer.
 - E) Veena is not working, but she is looking for a full-time job.

Topic: Employment and Unemployment

- 3) Which one of the following people would be counted as unemployed in Canada?
- A) Sharon recently began looking for work after staying at home for 10 years to look after her children.
 - B) Maurice is on a 2 month vacation out of the country but is still looking for a job using the internet.
 - C) Kanhaya has stopped looking for work since he was unable to find a suitable job during a two-month search.
 - D) Doris works only 5 hours a week but is looking for a full-time job.
 - E) Taylor is a homemaker.

Topic: Employment and Unemployment

- 4) Which one of the following people would be counted as unemployed in Canada?
- A) Ruth is a 14-year-old student and has been looking for an after-school job every day for the past month.
 - B) Ron has quit looking because he believes that there is no work available for him.
 - C) Simone is currently working but expects to be laid off by the end of the month, before next month's survey can be completed.
 - D) Sarah has been looking for a job but is taking a month-long break from the job-seeking effort due to her lack of skills.
 - E) Rebekah is a recent graduate looking for work.

Topic: Employment and Unemployment

- 5) Which one of the following people would be counted as unemployed in Canada?
- A) a person who has been seeking a job for the last six months, but recently gave up looking because he was discouraged by his job prospects
 - B) a person who will be starting a new job in 6 months
 - C) a person who has been laid off for 10 weeks and is not looking for a job because he is waiting to be called back to his old job
 - D) a person who expects to be laid off by the end of the month before next month's survey can be completed
 - E) a part-time worker who repeatedly expresses a desire to become a full-time worker

Topic: Employment and Unemployment

- 6) The labour force is
- A) the total number of people employed.
 - B) the total number of people in the working-age population who are either employed or unemployed.
 - C) the total number of people in the working-age population who are employed.
 - D) the total number of people aged 15 years and over.
 - E) none of the above.

Topic: Employment and Unemployment

- 7) The unemployment rate is defined as the number of
- A) unemployed people divided by the number of employed people.
 - B) unemployed people divided by the sum of the people employed and the people unemployed.
 - C) employed people divided by the number of people in the country.
 - D) unemployed people divided by the number of people in the country who are employed.
 - E) unemployed people divided by the number of people in the country.

Topic: Employment and Unemployment

- 8) Counting involuntary part-time workers as unemployed would
- A) raise the full employment rate.
 - B) not change the actual unemployment rate.
 - C) raise the natural unemployment rate.
 - D) raise the measured unemployment rate.
 - E) lower the measured unemployment rate.

Topic: Employment and Unemployment

- 9) Who of the following would be counted as unemployed in Canada?
- A) Sharon is a college student with no job.
 - B) Doris only works five hours a week but is looking for a full-time job.
 - C) Maurice has been laid off from his job for 20 weeks but expects to be called back soon.
 - D) Bogdan has been laid off from his job but does not expect to be called back, and is not looking.
 - E) Kanhaya has stopped looking for work since he was unable to find a suitable job during a two-month search.

Topic: Employment and Unemployment

- 10) Who of the following would be counted as unemployed in Canada?
- A) Vik, who has been staying at home watching "The Old and the Boring" soap opera, and not searching since he was laid off at the flour mill.
 - B) James, who is a full-time student looking for a part-time job.
 - C) Emmanuel, who lost his job at the steel plant when an automated assembly line was introduced six months ago, and has been job searching every day.
 - D) Caitlin, who is 14 years old, and looking for a babysitting job.
 - E) Youngmin, who is a part-time hamburger flipper looking for a full-time job.

Topic: Employment and Unemployment

- 11) If the working-age population increases, then
- A) the labour force participation rate will increase.
 - B) the total number of people aged 15 years and above will increase.
 - C) the number of people employed will increase.
 - D) the size of the labour force will increase.
 - E) the unemployment rate will increase.

Topic: Employment and Unemployment

- 12) In a country with a working-age population of 20 million, 13 million are employed, 1.5 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. The size of the labour force is
- A) 20 million.
 - B) 11.5 million.
 - C) 13 million.
 - D) 15.5 million.
 - E) 14.5 million.

Topic: Employment and Unemployment

- 13) In a country with a working-age population of 20 million, 13 million are employed, 1.5 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. The labour force participation rate is
- A) 72.5 percent.
 - B) 57.5 percent.
 - C) 65 percent.
 - D) 75.5 percent.
 - E) none of the above.

Topic: Employment and Unemployment

- 14) In a country with a working-age population of 22 million, 16 million are employed, 2 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. The unemployment rate is
- A) 15.4 percent.
 - B) 10 percent.
 - C) 10.3 percent.
 - D) 11.1 percent.
 - E) none of the above.

Topic: Employment and Unemployment

- 15) In a country with a working-age population of 22 million, 16 million are employed, 2 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. The employment-to-population ratio is
- A) 65 percent.
 - B) 57.5 percent.
 - C) 72.7 percent.
 - D) 75.5 percent.
 - E) none of the above.

Topic: Employment and Unemployment

- 16) In a country with a working-age population of 22 million, 16 million are employed, 2 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. The involuntary part-time rate is
- A) 6.3 percent.
 - B) 2.8 percent.
 - C) 5 percent.
 - D) 12.5 percent.
 - E) none of the above.

Topic: Employment and Unemployment

- 17) In a country with a working-age population of 30 million, 18 million are employed, 2 million are unemployed, and 2 million of the employed are working part-time, half of whom wish to work full-time. The labour force is
- A) 18 million.
 - B) 20 million.
 - C) 22 million
 - D) 30 million.
 - E) 16 million.

Topic: Employment and Unemployment

- 18) In a country with a working-age population of 30 million, 18 million are employed, 2 million are unemployed, and 2 million of the employed are working part-time, half of whom wish to work full-time. The labour force participation rate is
- A) 60 percent.
 - B) 66.7 percent.
 - C) 53.3 percent.
 - D) 73.3 percent
 - E) none of the above.

Topic: Employment and Unemployment

- 19) In a country with a working-age population of 30 million, 18 million are employed, 2 million are unemployed, and 2 million of the employed are working part-time, half of whom wish to work full-time. The unemployment rate is
- A) 9.1 percent.
 - B) 10 percent.
 - C) 14.3 percent.
 - D) 11.1 percent.
 - E) none of the above.

Topic: Employment and Unemployment

- 20) In a country with a working-age population of 30 million, 18 million are employed, 2 million are unemployed, and 2 million of the employed are working part-time, half of whom wish to work full-time. The employment-to-population ratio is
- A) 60 percent.
 - B) 66.7 percent.
 - C) 73.3 percent.
 - D) 53.3 percent.
 - E) none of the above.

Topic: Employment and Unemployment

- 21) In a country with a working-age population of 30 million, 18 million are employed, 2 million are unemployed, and 2 million of the employed are working part-time, half of whom wish to work full-time. The involuntary part-time rate is
- A) 4.5 percent.
 - B) 10 percent.
 - C) 4.8 percent.
 - D) 5 percent.
 - E) none of the above.

Topic: Employment and Unemployment

- 22) Which of the following reflects an increase in unemployment?
- A) an increase in the labour force participation rate
 - B) an increase in the involuntary part-time rate
 - C) a decrease in the unemployment rate
 - D) an increase in the employment-to-population ratio
 - E) none of the above

Topic: Employment and Unemployment

- 23) The labour force participation rate is
- A) the percentage of the working-age population who are employed.
 - B) the percentage of the labour force who are employed.
 - C) the percentage of the labour force who are unemployed or employed.
 - D) the percentage of the working-age population who are unemployed or employed.
 - E) none of the above.

Topic: Employment and Unemployment

- 24) The employment-to-population ratio is
- A) the percentage of the working-age population who are employed.
 - B) the percentage of the labour force who are unemployed or employed.
 - C) the percentage of the labour force who are employed.
 - D) the percentage of the working-age population who are unemployed or employed.
 - E) none of the above.

Topic: Employment and Unemployment

- 25) In a recession, typically
- A) unemployment rises.
 - B) the employment-to-population ratio decreases.
 - C) the employment-to-population rate rises.
 - D) the labour force participation rate rises.
 - E) both A and B are correct.

Topic: Employment and Unemployment

- 26) In a recession, typically
- A) the labour force participation rate increases.
 - B) the employment-to-population ratio decreases.
 - C) the employment-to-population ratio increases.
 - D) unemployment decreases.
 - E) none of the above.

Topic: Employment and Unemployment

- 27) Complete the following sentence. In an expansion, typically
- A) unemployment increases.
 - B) the labour force participation rate increases.
 - C) the employment-to-population ratio decreases.
 - D) employment decreases.
 - E) both B and D are correct.

Topic: Employment and Unemployment

- 28) 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, II and IV
 - B) I and III
 - C) I and II
 - D) I, II and III
 - E) all of the above

Topic: Employment and Unemployment

- 29) Since 1960, Canadian labor force participation rate has _____ and the unemployment rate has _____.
- A) trended higher; trended lower
 - B) trended lower; varied over the business cycle
 - C) trended higher; varied over the business cycle
 - D) trended higher; trended higher
 - E) varied over the business cycle; trended higher

Topic: Employment and Unemployment

- 30) If the people who take early retirement are not counted in the working –age population, then
- A) the labor force participation rate would be higher.
 - B) the unemployment rate would be lower.
 - C) the labor force participation rate would be less.
 - D) the unemployment rate would be higher.
 - E) none of the above.

Topic: Employment and Unemployment

- 31) 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 falling.
 - B) size of the labor force is rising.
 - C) number of employed people must be increasing.
 - D) number of unemployed people is rising and the size of the labor force is falling.
 - E) number of unemployed people is falling and the size of the labor force is rising.

Topic: Employment and Unemployment

- 32) The largest source of unemployment is
- A) re-entrants to the labour force.
 - B) job losers.
 - C) involuntary part-time workers.
 - D) job leavers.
 - E) entrants to the labour force.

Topic: Unemployment and Full Employment

- 33) In a country with a working-age population of 22 million, 16 million are employed, 2 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. If 500,000 of those unemployed are cyclically unemployed, what is the natural unemployment rate?
- A) 9.4 percent
 - B) 11.1 percent
 - C) 5.6 percent
 - D) 8.3 percent
 - E) none of the above

Topic: Unemployment and Full Employment

- 34) In a country with a working-age population of 22 million, 16 million are employed, 2 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. If 500,000 of those unemployed are cyclically unemployed, what is the natural unemployment rate?
- A) 8.3 percent
 - B) 5.6 percent
 - C) 11.1 percent
 - D) 9.4 percent
 - E) none of the above

Topic: Unemployment and Full Employment

- 35) In a country with a working-age population of 30 million, 18 million are employed, 2 million are unemployed, and 2 million of the employed are working part-time, half of whom wish to work full-time. If 1 million of those unemployed are cyclically unemployed, what is the natural unemployment rate?
- A) 5 percent
 - B) 11.1 percent
 - C) 5.6 percent
 - D) 6.7 percent
 - E) none of the above

Topic: Unemployment and Full Employment

- 36) Which one of the following people is structurally unemployed?
- A) a Saskatchewan welder who lost her job when her company relocated to B. C. and is currently looking for a job
 - B) a Nova Scotia fishery worker who is searching for a better job closer to home
 - C) an office worker who has lost her job because of a general slowdown in economic activity
 - D) a steel worker who is laid off but who expects to be called back soon
 - E) none of the above

Topic: Unemployment and Full Employment

- 37) Unemployment caused by permanently decreased demand for horse-drawn carriages is an example of
- A) frictional unemployment.
 - B) discouraged unemployment.
 - C) seasonal unemployment.
 - D) structural unemployment.
 - E) cyclical unemployment.

Topic: Unemployment and Full Employment

- 38) Which one of the following people is cyclically unemployed?
- A) a Nova Scotia fishery worker who is searching for a better job closer to home
 - B) a Saskatchewan welder who lost her job when her company relocated to B. C. and is currently looking for a job
 - C) a steel worker who is laid off but who expects to be called back soon
 - D) an office worker who has lost her job because of a general slowdown in economic activity
 - E) none of the above

Topic: Unemployment and Full Employment

- 39) Which one of the following people is frictionally unemployed? A steel worker who
- A) decides to leave the labour force and become a full-time ballet student.
 - B) becomes discouraged and stops looking for a job.
 - C) is laid off but expects to be called back soon.
 - D) loses her job because of technological change.
 - E) gives up her job because she retires.

Topic: Unemployment and Full Employment

- 40) If the economy is at full employment, then
- A) the entire population is employed.
 - B) the only unemployment is frictional unemployment plus discouraged workers.
 - C) the entire labour force is employed.
 - D) all unemployment arises from normal frictions and structural change.
 - E) the unemployment rate is less than 3 percent.

Topic: Unemployment and Full Employment

- 41) The natural unemployment rate is
- A) equal to 0 percent.
 - B) the rate at which cyclical unemployment is equal to 0 percent.
 - C) the same as the cyclical unemployment rate.
 - D) the rate at which cyclical unemployment is equal to 6 percent.
 - E) none of the above.

Topic: Unemployment and Full Employment

- 42) At full employment, there is no
- A) cyclical unemployment.
 - B) structural unemployment.
 - C) frictional unemployment.
 - D) natural unemployment.
 - E) unemployment.

Topic: Unemployment and Full Employment

- 43) A zero percent unemployment rate
- A) is the only efficient unemployment rate.
 - B) is one of the economic goals of the Canadian government.
 - C) is not consistent with the notion of full employment.
 - D) was last achieved during World War II when everyone was willing to work at the going wage rate to end the war.
 - E) would alleviate scarcity.

Topic: Unemployment and Full Employment

- 44) Complete the following sentence. Full employment
- A) occurs when all unemployment is frictional and discouraged.
 - B) occurs when all unemployment is cyclical and structural.
 - C) occurs when there is zero unemployment.
 - D) occurs when there is zero frictional unemployment.
 - E) occurs when there is zero cyclical unemployment.

Topic: Unemployment and Full Employment

Use the table below to answer the following questions.

Table 21.2.1

This table shows the answers given by interviewees to the Labour Force Survey

Person A	Now that kids are in school full-time, this person is looking for work and has been interviewed for three jobs over the past 2 weeks.
Person B	This person has been laid off but expects to be called back in a few weeks, just as soon as the economy improves.
Person C	This person has just graduated from university and will start a new job in 8 weeks. In the meantime, this person is surveying local drinking establishments.
Person D	This person was laid off last year when new equipment at the plant reduced the number of jobs. Since his layoff, this person has been constantly job searching.
Person E	This economics graduate is working two nights a week at the 7-11, but wants full-time work as an economist.

45) In Table 21.2.1, which person is frictionally unemployed?

- A) A
- B) B
- C) C
- D) E
- E) none of them

Topic: Unemployment and Full Employment

46) In Table 21.2.1, which person is structurally unemployed?

- A) A
- B) B
- C) C
- D) D
- E) none of them

Topic: Unemployment and Full Employment

47) In Table 21.2.1, which person is cyclically unemployed?

- A) A
- B) B
- C) C
- D) D and B
- E) A and C

Topic: Unemployment and Full Employment

- 48) In Table 21.2.1, which person is *not* included in the calculation of the natural unemployment rate?
- A) A
 - B) B and E
 - C) C
 - D) D and B
 - E) A and C

Topic: Unemployment and Full Employment

- 49) In Table 21.2.1, which person is a discouraged worker?
- A) A
 - B) B
 - C) C
 - D) D
 - E) none of them

Topic: Unemployment and Full Employment

- 50) Structural unemployment arises in part because
- A) of unrealistic wage expectations.
 - B) of technological change.
 - C) people become discouraged when they cannot find jobs.
 - D) people will not quit their present jobs until they can find suitable employment elsewhere.
 - E) there are not enough jobs available.

Topic: Unemployment and Full Employment

- 51) Full employment does not mean that there is zero unemployment because
- A) of unrealistic wage expectations.
 - B) some cyclical unemployment is always present.
 - C) of the existence of discouraged workers.
 - D) business fluctuations are inevitable.
 - E) some frictional unemployment is always present.

Topic: Unemployment and Full Employment

- 52) In a dynamic economy under ideal conditions, the unemployment rate
- A) increases as the price level rises.
 - B) is greater than zero percent due to natural unemployment.
 - C) should be zero.
 - D) averages 6 percent.
 - E) decreases as the price level falls.

Topic: Unemployment and Full Employment

- 53) If the economy is operating at full employment, then
- A) the unemployment rate is zero.
 - B) everyone who wants a job has one.
 - C) the entire labour force is employed.
 - D) the unemployment rate is approximately 3 percent.
 - E) none of the above.

Topic: Unemployment and Full Employment

- 54) Jesse just graduated from university, and is looking for her first job. Jesse is
- A) structurally unemployed.
 - B) cyclically unemployed.
 - C) frictionally unemployed.
 - D) not unemployed.
 - E) not in the labour force.

Topic: Unemployment and Full Employment

- 55) Caitlin is working part-time at the Mr. G store, but wants to work full-time. She is
- A) frictionally unemployed.
 - B) structurally unemployed.
 - C) cyclically unemployed.
 - D) not in the labour force.
 - E) none of the above.

Topic: Unemployment and Full Employment

- 56) Michael lost his job as a night security guard because he kept falling asleep at the job. Now he is looking for a new job. Michael is
- A) frictionally unemployed.
 - B) not unemployed.
 - C) structurally unemployed.
 - D) cyclically unemployed.
 - E) none of the above.

Topic: Unemployment and Full Employment

- 57) Rochelle lost her job as a salesperson when sales fell off during the recession. Now she is looking for a new job. Rochelle is
- A) not unemployed.
 - B) frictionally unemployed.
 - C) cyclically unemployed.
 - D) structurally unemployed.
 - E) none of the above.

Topic: Unemployment and Full Employment

- 58) Henelyn lost her job as a factory worker when she was replaced by a robotic machine. Now she is looking for a new job. Henelyn is
- A) cyclically unemployed.
 - B) structurally unemployed.
 - C) not unemployed.
 - D) frictionally unemployed.
 - E) none of the above.

Topic: Unemployment and Full Employment

- 59) People become unemployed when they
- A) leave university and start seeking work.
 - B) retire.
 - C) are on maternity leave.
 - D) quit working to go to university.
 - E) all of the above.

Topic: Unemployment and Full Employment

60) People end unemployment when they

- A) are laid off.
- B) quit work to go to school.
- C) retire from a job.
- D) are recalled from a layoff.
- E) quit work to raise a family.

Topic: Unemployment and Full Employment

61) Counting discouraged workers as unemployed would

- A) lower the measured unemployment rate.
- B) raise the measured unemployment rate.
- C) raise the natural unemployment rate.
- D) raise the full employment rate.
- E) not change the measured unemployment rate.

Topic: Unemployment and Full Employment

62) If the number of discouraged workers increases, everything else remaining the same, then the

- A) unemployment rate will increase.
- B) employment-to-population ratio will decrease.
- C) employment-to-population ratio will increase.
- D) labour force participation rate will increase.
- E) labour force participation rate will decrease.

Topic: Unemployment and Full Employment

63) If the number of discouraged workers decreases because many of them start to look for work, everything else remaining the same, then the

- A) unemployment rate will increase.
- B) employment-to-population ratio will decrease.
- C) labour force participation rate will increase.
- D) labour force participation rate will decrease.
- E) both A and C.

Topic: Unemployment and Full Employment

64) 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) 5 percent
- B) 3 percent
- C) 8 percent
- D) 7 percent
- E) 4 percent

Topic: Unemployment and Full Employment

65) 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) 3.5 percent.
- C) 8 percent.
- D) 0 percent.
- E) -1 percent.

Topic: Unemployment and Full Employment

- 66) Suppose that the unemployment rate equals 4.5 percent and that the natural unemployment rate is 5.5 percent. We can conclude that
- A) potential GDP is greater than real GDP.
 - B) real GDP is greater than nominal GDP.
 - C) potential GDP equals real GDP.
 - D) potential GDP is less than real GDP.
 - E) we have mismeasured the natural unemployment rate.

Topic: Unemployment and Full Employment

- 67) If the economy is at full employment,
- A) the only unemployment is frictional unemployment plus discouraged workers.
 - B) all unemployment is cyclical and structural.
 - C) real GDP equals potential GDP.
 - D) the entire labor force is employed.
 - E) the entire population is employed.

Topic: Unemployment and Full Employment

- 68) When the unemployment rate is less than the natural unemployment rate, real GDP is _____ than potential GDP and the output gap is _____.
- A) smaller; negative
 - B) smaller; positive
 - C) greater; positive
 - D) greater; equal to zero
 - E) greater; negative

Topic: Unemployment and Full Employment

- 69) When the unemployment rate _____ the natural unemployment rate, real GDP _____ potential GDP.
- A) is greater than; is less than
 - B) equals; is greater than
 - C) is less than; is less than
 - D) equal; is less than
 - E) is greater than; equals

Topic: Unemployment and Full Employment

- 70) In August 2006, the Canadian unemployment rate was 6.4 percent. In August 2008, the Canadian unemployment rate was 6.1 percent. Between August 2006 and August 2008, the number of job losers _____, the number of job leavers _____, and the number of entrants and reentrants _____.
- A) decreased; did not change much; decreased
 - B) decreased; increased; increased
 - C) decreased; decreased; increased
 - D) decreased; increased; decreased
 - E) did not change much; increased; increased

Topic: Unemployment and Full Employment

- 71) Some unemployment is unavoidable because _____.
A) many people in the working-age population attend school and are unemployed
B) people are making transitions through the stages of life and businesses are making transitions
C) often people become discouraged workers
D) there is always some cyclical unemployment
E) many part-time workers would like to have full-time work

Topic: Unemployment and Full Employment

- 72) The official unemployment rate might underestimate the underutilization of labour resources for all of the following reasons *except* _____.
A) it excludes people who are waiting to be called back to jobs from which they have been laid off
B) it excludes marginally attached workers
C) it excludes discouraged workers
D) it excludes part-time workers who want full-time jobs
E) the official unemployment rate excludes all of the above

Topic: Unemployment and Full Employment

- 73) The unemployment rate is supposed to measure _____. It is an imperfect measure because _____.
A) the percentage of the working-age population who are unemployed; it is impossible to count everyone in the working-age population
B) the underutilization of labour resources; it excludes some underutilized labour and some unemployment is unavoidable
C) the percentage of the labour force who are unemployed; it is impossible to count everyone in the labour force
D) the number of unemployed plus the number of marginally attached workers expressed as a percentage of the labour force; it excludes the marginally attached workers because Statistics Canada considers them as employed
E) the underutilization of labour resources; it includes part-time workers and excludes discouraged workers

Topic: Unemployment and Full Employment

- 74) The reference base period is 2002. A consumer price index of 122 in 2009 means that
A) the average of the prices paid by urban consumers for a fixed market basket of consumer goods and services was 22 percent higher in 2009 than it was on average during 2002.
B) prices of consumer goods have gone up by a factor of 12.2.
C) if the price of a good was \$100 in 2002, its price in 2009 is \$122.
D) the market basket of consumer goods that cost \$122 in 2002 can be purchased for \$100 in 2009.
E) prices of consumer goods have more than doubled.

Topic: The Price Level and Inflation

- 75) If the CPI was 128 at the end of 2007 and 136 at the end of 2008, what was the inflation rate in 2008?
A) 8 percent
B) 5.9 percent
C) 9.4 percent
D) 4.2 percent
E) 6.25 percent

Topic: The Price Level and Inflation

- 76) If the CPI was 95 at the end of 2007 and 105 at the end of 2008, what was the inflation rate in 2008?
- A) 105 percent
 - B) 10.5 percent
 - C) 9.5 percent
 - D) 5 percent
 - E) 10 percent

Topic: The Price Level and Inflation

- 77) If the CPI was 228 at the end of 2007 and 236 at the end of 2008, what was the inflation rate in 2008?
- A) 236 percent
 - B) 3.5 percent
 - C) 8 percent
 - D) 4 percent
 - E) 3.4 percent

Topic: The Price Level and Inflation

- 78) If the CPI was 140 at the end of 2007 and 150 at the end of 2008, what was the inflation rate in 2008?
- A) 10 percent
 - B) 6.67 percent
 - C) 6.25 percent
 - D) 7.14 percent
 - E) 8 percent

Topic: The Price Level and Inflation

- 79) If the CPI was 180 at the end of 2007, and 216 at the end of 2008, the inflation rate in 2008 was
- A) 216 percent.
 - B) 36 percent.
 - C) 18 percent.
 - D) 20 percent.
 - E) 16.67 percent.

Topic: The Price Level and Inflation

- 80) The cost of the CPI basket in base-period prices is \$200 and the cost of the CPI basket in current-period prices is \$450. The CPI in the current year is
- A) 300.
 - B) 250.
 - C) 225.
 - D) 44.44.
 - E) 450.

Topic: The Price Level and Inflation

- 81) The consumer price index is a measure of
- A) the lowest prices paid by urban consumers for a fixed basket of consumer goods and services.
 - B) the commodity prices paid by urban consumers for a fixed basket of consumer goods and services.
 - C) the average of the prices paid by urban consumers for a fixed basket of consumer goods and services.
 - D) the consumer prices paid by average households for a fixed basket of goods and services.
 - E) the average of the prices paid by rural consumers for a fixed basket of consumer goods and services.

Topic: The Price Level and Inflation

- 82) The inflation rate measures
- A) the annual percentage change in the price level.
 - B) the annual change in the price level.
 - C) the average price level.
 - D) the annual percentage change in the wage rate.
 - E) none of the above.

Topic: The Price Level and Inflation

Use the table below to answer the following questions.

Table 21.3.1

Suppose a simple economy produces three goods only.
The price and output data for some selected years are shown below.

	Price (dollars)	Price (dollars)	Quantity (number)	Quantity (number)
	1998	2008	1998	2008
Pop	0.75	1.10	100	120
Crackers	1.25	2.10	300	280
Cucumbers	2.00	3.00	200	190

- 83) Refer to Table 21.3.1. The reference base period is 1998. The CPI in 2008 is
- A) 158.
 - B) 1,340.
 - C) 100.
 - D) 63.
 - E) 96.

Topic: The Price Level and Inflation

- 84) Refer to Table 21.3.1. The reference base period is 1998. Which one of the following statements is true?
- A) All prices have risen by the same amount.
 - B) From 1998 to 2008, the cost of the market basket rose by 58 percent.
 - C) The inflation rate in 1998 is greater than the inflation rate in 2008.
 - D) It costs 158 times more in 2008 than it does in 1998 to buy the same market basket.
 - E) The inflation rate in 2008 is greater than the inflation rate in 1998.

Topic: The Price Level and Inflation

- 85) Refer to Table 21.3.1. The reference base period is 1998. the CPI in 1998 is
- A) 158.
 - B) 100.
 - C) 63.
 - D) 1,340.
 - E) 96.

Topic: The Price Level and Inflation

- 86) Refer to Table 21.3.1. The reference base period is 2008. The CPI in 1998 is
- A) 157.
 - B) 129.
 - C) 64.
 - D) 100.
 - E) 152.

Topic: The Price Level and Inflation

- 87) Refer to Table 21.3.1. The reference base period is 2008. The CPI in 2008 is
- A) 129.
 - B) 153.
 - C) 64.
 - D) 157.
 - E) 100.

Topic: The Price Level and Inflation

- 88) If the CPI in 2008 was 100 and the CPI in 2006 was 115, then the inflation rate in 2006 is
- A) 100 percent.
 - B) 11.5 percent.
 - C) 115 percent.
 - D) 1.5 percent.
 - E) none of the above.

Topic: The Price Level and Inflation

- 89) The fixed basket of Econoland consists of 10 units of *A*, 20 units of *B*, and 30 units of *C*. Current prices are \$1 per unit of *A*, \$2 per unit of *B*, and \$3 per unit of *C*. Base year prices are \$1 for each unit of *A*, *B*, and *C*. What is the CPI in the current year?
- A) 140
 - B) 43
 - C) 233
 - D) 430
 - E) 100

Topic: The Price Level and Inflation

- 90) The Consumer Price Index measures inflation by using
- A) only consumption goods and services purchased using a current-year basket.
 - B) only consumption goods and services purchased using a base-year basket.
 - C) all goods and services that are produced using a base-year basket.
 - D) all goods and services that are produced using a current-year basket.
 - E) A and D.

Topic: The Price Level and Inflation

- 91) The technique used to calculate the CPI implicitly assumes that consumers buy
- A) relatively more of goods with relative prices that are increasing.
 - B) goods and services whose quality improves at the rate of growth of real GDP.
 - C) relatively less of goods with relative prices that are decreasing.
 - D) more computers and CD players and fewer black-and-white TVs.
 - E) the same relative quantities of goods as in a base year.

Topic: The Price Level and Inflation

- 92) If there is a 5 percent increase in the CPI, then there will most likely be
- A) a more than 5 percent rise in the cost of living because of the introduction of new goods.
 - B) a 5 percent rise in the cost of living.
 - C) a less than 5 percent rise in the cost of living because of consumers substituting away from goods whose relative prices rise towards other goods.
 - D) a more than 5 percent rise in the cost of living because of consumers substituting away from goods whose relative prices rise towards other goods.
 - E) a less than 5 percent rise in the cost of living because of falling quality of goods over time.

Topic: The Price Level and Inflation

- 93) All of the following are possible sources of bias in using the Consumer Price Index to measure inflation *except*
- A) an increase in the cost of living
 - B) commodity substitution.
 - C) an improvement in the quality of goods.
 - D) the introduction of new goods.
 - E) Both C and D are exceptions.

Topic: The Price Level and Inflation

- 94) When prices at Wendy's rise, more consumers buy their meals at McDonald's and fewer consumers buy their meals at Wendy's. This is an example of
- A) commodity substitution.
 - B) outlet substitution.
 - C) consumers' action to boycott Wendy's.
 - D) both A and B.
 - E) both B and C.

Topic: The Price Level and Inflation

- 95) Suppose a trade union and a firm agree to increase the wage rate by the same percentage as the increase in the Consumer Price Index. If the CPI increases by 5 percent, then the real income of workers will
- A) increase by less than 5 percent, accounting for bias in the calculation of the CPI.
 - B) remain unchanged, accounting for bias in the calculation of the CPI.
 - C) increase by more than 5 percent, accounting for bias in the calculation of the CPI.
 - D) increase by 5 percent as well.
 - E) decrease by 5 percent, accounting for bias in the calculation of the CPI.

Topic: The Price Level and Inflation

Use the table below to answer the following question.

Table 21.3.2
Data From Southton

	Price (dollars)	Price (dollars)	Quantity (number)	Quantity (number)
Item	Base	Current	Base	Current
Rubber Ducks	1.00	1.25	100	100
Beach Towels	9.00	6.00	12	14

- 96) Refer to Table 21.3.2. From the data in Table 21.3.2, what is Southton's consumer price index for the current year?
- A) 105.6
 - B) 100.5
 - C) 100
 - D) 112
 - E) 94.7

Topic: The Price Level and Inflation

- 97) Comparing the core inflation rate to the Consumer Price Index, the core inflation rate
- A) controls for the biases of the CPI.
 - B) uses current period quantities, not base period quantities.
 - C) measures all goods produced, not just consumer goods.
 - D) includes volatile elements not in the CPI.
 - E) excludes the volatile elements of the CPI.

Topic: The Price Level and Inflation

- 98) If the inflation rate is positive, the price level in an economy is
- A) zero.
 - B) falling rapidly.
 - C) constant.
 - D) falling slowly.
 - E) rising.

Topic: The Price Level and Inflation

- 99) Commodity 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) accounts for improved quality in price rises.
 - E) substitutes relative prices for absolute prices of goods.

Topic: The Price Level and Inflation

100) Of the following sequences of price levels, which correctly represents a 5 percent inflation rate?

- A) 100, 105, 105, 105
- B) 100, 105, 110, 115
- C) 100, 105, 110.25, 115.76
- D) 95, 100, 105, 110
- E) 100, 100, 100, 100

Topic: The Price Level and Inflation

101) The commodity substitution bias is that

- A) consumers decrease the quantity they buy of goods whose relative prices rise and increase the quantity of goods whose relative price falls.
- B) consumers substitute more expensive goods for less expensive goods when technology advances.
- C) government spending is a good substitute for investment expenditures.
- D) national saving and foreign borrowing are interchangeable.
- E) consumers substitute high-quality goods for low-quality goods.

Topic: The Price Level and Inflation

102) Hyperinflation is defined as

- A) an increase in the price level.
- B) rising but low inflation rates.
- C) very low inflation rates.
- D) very high inflation rates.
- E) declining inflation rates.

Topic: The Price Level and Inflation

103) Choose the *incorrect* statement.

- A) When the quality of a good improves over time and as a result the price rises, the CPI counts the entire price rise as inflation and so overstates inflation.
- B) The outlet substitution bias injects an upward bias into the CPI.
- C) The CPI basket is constantly updated to allow for the introduction of new goods.
- D) When relative prices change and people substitute to the lower priced good, the CPI ignores the substitution and the CPI overstates inflation.
- E) All of the above statements are incorrect.

Topic: The Price Level and Inflation

104) The price indexes that are alternatives to the CPI are _____.

- A) unbiased CPI and the unbiased GDP deflator
- B) the GDP deflator and the chained price index for consumption
- C) the chained price index for consumption and the CPI deflator
- D) the core GDP deflator and the CPI deflator
- E) the GDP deflator and the CPI deflator

Topic: The Price Level and Inflation

105) The CPIC _____.

- A) overcomes the sources of bias in the CPI by eliminating measures of the goods and services with the most volatile prices
- B) overcomes the sources of bias in the CPI by incorporating substitutions and using current and previous period quantities
- C) does not overcome the source of bias in the CPI
- D) overcomes the sources of bias in the CPI by always using discount store prices
- E) overcomes the sources of bias in the CPI by giving extra weight to the measures of the goods and services with the most volatile prices

Topic: The Price Level and Inflation

Refer to the table below to answer the following question.

Table 21.3.3

Region	2006	2007	2008
United State	117.1	120.4	124.0
Euro area	113.6	117.1	119.6
Japan	98.1	98.1	98.8

106) Refer to Table 21.3.3. The IMF *World Economic Outlook* reports the price level data given in the table. The region with the highest inflation rate in 2007 is _____. The region with the highest inflation rate in 2008 is _____.

- A) Japan; the United States
- B) the United States; the Euro area
- C) the United States; Japan
- D) the Euro area; the United States
- E) the Euro area; Japan

Topic: The Price Level and Inflation

107) Refer to Table 21.3.3. The IMF *World Economic Outlook* reports the price level data given in the table. The region with the highest inflation rate in 2007 is _____. The region with the highest inflation rate in 2008 is _____.

- A) the United States; Japan
- B) the Euro area; the United States
- C) the United States; the Euro area
- D) Japan; the United States
- E) the Euro area; Japan

Topic: The Price Level and Inflation

Answer Key

Testname: 21 JOBS & INFL

- | | | |
|-------|--------|--------|
| 1) D | 51) E | 101) A |
| 2) E | 52) B | 102) D |
| 3) A | 53) E | 103) C |
| 4) E | 54) C | 104) B |
| 5) C | 55) E | 105) B |
| 6) B | 56) A | 106) D |
| 7) B | 57) C | 107) B |
| 8) D | 58) B | |
| 9) C | 59) A | |
| 10) C | 60) D | |
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| 36) A | 86) C | |
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| 50) B | 100) C | |

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