Quiz Chapter 16

Indicate the answer choice that best completes the statement or answers the question.

	1	2	3	4	5	6	7	8	9	10
a										
b										
c										
d										
e										

1. A recent monthly press release on the Consumer Price Index says, "The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2 percent in July, before seasonal adjustment, to a level 256.6 (1982–84 = 100), the Bureau of Labor Statistics of the U.S. Department of Labor reported today." This means that *now*   *base period*

   a. prices have increased 256.6% so that it now costs $356.60 to buy goods and services that cost $100 in 1982–1984.

   b. prices have increased 156.6% so that it now costs $256.60 to buy goods and services that cost $100 in 1982–1984. *[Index = 256.6 . Increase 256.6 − 100 = 156.6*

   c. prices have increased 0.2% so that it now costs

$100.20 to buy goods and services that cost $100 in 1982–1984.

d. a mistake has been made because an index number can only take values between 0 and 1.

2. If the CPI (1982–1984 = 100) is 237.1, this means that

   a. prices have increased 137.1% so that it now costs $237.10 to buy goods and services that cost $100 in 1982–1984.

   b. prices have increased 237.1 percent so that it now costs $337.10 to buy goods and services that cost $100 in 1982–1984.

   c. since 1982–1984 = 100, the current price is (1982–1984)/237.1 = 1898/237.1 = $8.00.

   d. a mistake has been made because 1982–1984 = 1,898 is much greater than 100.

   e. a mistake has been made because an index number can only take values between 0 and 1.

3. The federal minimum wage was $7.25 an hour after it was increased in 2009. In 1980, the minimum wage was $3.25 an hour. The CPI (1982–1984 = 100) was 82.4 in 1980 and was 214.5 in 2009. Which of the following is *true*?

   a. The 1980 minimum wage is about $8.46 in 2009

$$D_{2009} = D_{1980} \frac{CPI_{2009}}{CPI_{1980}}$$

$D_{2009} = 3.25$ $\dfrac{214.5}{82.4} = 8.46 > 7.25$

must be

minimum wage in 2009

dollars, so the minimum wage has gone down in real terms.

b. The 1980 minimum wage is about $8.46 in 2009 dollars, so the minimum wage has gone up in real terms.

c. The 1980 minimum wage is about $1.25 in 2009 dollars, so the minimum wage has gone down in real terms.

d. The 1980 minimum wage is about $1.25 in 2009 dollars, so the minimum wage has gone up in real terms.

e. The 1980 minimum wage is about $4.50 in 2009 dollars, so the minimum wage has gone up in real terms.

4. A pound of ground coffee cost $2.47 in 1992 and $6.50 in 2016. The ground coffee price index number (1992 = 100) for 2016 is

$\dfrac{price}{base} \times 100$

   a. $(6.50/2.47) \times 100 = 263.2$.

✗ b. $(2.47/6.50) \times 100 = 38.0$.

✗ c. $(6.50 - 2.47) \times 100 = 403.0$.

✗ d. $(6.50 - 2.47)/(2016 - 1992) = 0.168$.

✗ e. $(6.50 - 2.47)/(2016 - 1992) \times 100 = 16.8$.

Quiz Chapter 16

5. Some people buy the stock of small companies. The Russell 2000 index, which tracks the price of such shares, was 772 on December 31, 2007. On December 31, 2015, the index was 1200. What percent increase is this?

    a. 438%

    b. 43.8%

    c. 35.7%

    d. 55.4%

$$\left(\frac{1200}{772} - 1\right) \times 100 = 0.5544 \times 100 = 55.44\%$$

6. The average price of a pound of bananas was 36.2 cents in 1981 and 59.0 cents in 2016. What is the bananas index number (1981 = 100) for 2016?

    a. 1.63

    b. 1.63 cents

    c. 22.8 cents

    d. 62.9

    e. 162.9

$$\frac{59}{36.2} \times 100 = 1.629834 \times 100 = 162.9834$$

7. Athletes make more now, but prices are also higher than in the past. In 2013, the basketball player Stephen Curry signed a contract for $44 million with the Golden State Warriors. How much is this in 1975 dollars? (The CPI was 53.8 in 1975 and was 233.9 in 2013.)

    a. About $308 million

$$D_{2013} = D_{1975} \quad \frac{CPI_{2013}}{CPI_{1975}}$$

b. About $37 million

c. About $90 million

d. About $26 million

e. About $10 million

Handwritten (blue):
$$44 = ? \times \frac{233.9}{53.8}$$
and so
$$? = 10.12056 \text{ million}$$

8. In 2011, consumers tended to buy bigger-screen TV sets than they did in the 1982–1984 base period. How does the CPI reflect this fact?

a. It doesn't, because it uses a fixed market basket.

b. It can't, possibly because, if it did, the price of TVs would have gone up instead of down.

c. Every month, there is a new Consumer Expenditure Survey, which records what consumers actually buy, so the market basket changes every month.

d. The Bureau of Labor Statistics (BLS) adjusts the actual price to subtract out the part that pays for improved quality.

Handwritten (red): We skipped proper 22 of slides

e. The BLS corrects by using a different base period.

Handwritten (red, right margin): Ignore this problem

9. Lebron James's 2018 contract with the Los Angeles Lakers was $35.65 million. How much is this in 2000 dollars? (The CPI was 172.2 in 2000 and 251.1 in 2018.)

a. About $10 million

b. About $15 million

c. About $20 million

d. About $25 million

e. About $52 million

$35.65 = ?$

$\dfrac{251.1}{172.2}$

and so

$? = 24.44815$

There are separate CPIs for various components of the market basket. For example, the CPI for new motor vehicles (1982–1984 = 100) was 132.4 in 2008.

10. If there were adjustments in the new motor vehicle index due to quality improvements (e.g., more features, better engines now than in 1984), would the actual increase in new motor vehicle prices be greater, smaller, or the same as in the previous question?

a. Greater

b. Smaller

c. The same

d. Could be either greater or smaller

<u>**Quiz Chapter 16**</u>

<u>Answer Key</u>

1. b

2. a

3. a

4. a

5. d

6. e

7. e

8. d

9. d

10. a