Monitor 6 Cycles, Jobs, and the Price Level*

The Business Cycle

Topic: Business Cycle
Skill: Recognition
1) A business cycle is the
A) pattern of short-run upward and downward movements in production and jobs.
B) increase in consumer spending that accompanies an increase in disposable income.
C) cyclical change in the nation’s balance of trade.
D) cyclical movement in the interest rates.
Answer: A

Topic: Business Cycle
Skill: Recognition
2) Which of the following are parts of the business cycle?
A) Peak and potential GDP
B) Real GDP and potential GDP
C) Recession and expansion
D) Inflation and Recession
Answer: C

Topic: Business Cycle
Skill: Recognition
3) A popular working definition of a recession is
A) a period during which real GDP increases for at least two successive quarters.
B) the lower turning point of a business cycle.
C) the upper turning point of a business cycle.
D) a period during which real GDP decreases for at least two successive quarters.
Answer: D

Topic: Business Cycle
Skill: Recognition
4) A popular working definition of a recession is a period with
A) negative growth rate in real GDP that lasts at least one quarter.
B) positive growth rate in real GDP that lasts at least one quarter.
C) positive growth rate in real GDP that lasts at least two quarters.
D) negative growth rate in real GDP that lasts at least two quarters.
Answer: D

Topic: Business Cycle
Skill: Recognition
5) By the popular working definition, a recession occurs when
A) the international deficit worsens for at least two successive quarters.
B) the government budget deficit exceeds the national debt.
C) the inflation rate exceeds 3.5 percent.
D) real GDP decreases for at least two successive quarters.
Answer: D

Topic: Business Cycle
Skill: Analytical
6) By the popular working definition, recessions occur
A) whenever unemployment increases.
B) when growth in real GDP decreases for two consecutive quarters.
C) when growth in real GDP is negative for two consecutive quarters.
D) when the unemployment rate exceeds 6 percent.
Answer: B

* This is Chapter 22 in Economics.
**Topic: Business Cycle**  
**Skill: Analytical**

7) GDP declines during
   A) the movement from trough to peak.
   B) the movement from below potential GDP back to potential GDP.
   C) the movement from peak to trough.
   D) a decrease in unemployment.

   **Answer: C**

**Topic: Business Cycle**  
**Skill: Recognition**

8) A trough is the
   A) lower turning point of a business cycle when an expansion begins.
   B) lower turning point of a business cycle when a recession begins.
   C) upper turning point of a business cycle when an expansion begins.
   D) upper turning point of a business cycle when a recession begins.

   **Answer: A**

**Topic: Business Cycle**  
**Skill: Recognition**

9) What term is used to describe the lowest point of a business cycle?
   A) peak
   B) trough
   C) expansion
   D) recession

   **Answer: B**

**Topic: Business Cycle**  
**Skill: Recognition**

10) The bottom or low point of a recession just before an expansion begins is called
    A) the trough.
    B) the contraction.
    C) the peak.
    D) the pits.

   **Answer: A**

**Topic: Business Cycle**  
**Skill: Recognition**

11) An expansion occurs when production of goods and services is
    A) increasing.
    B) decreasing.
    C) at a cyclical peak.
    D) at a cyclical trough.

   **Answer: A**

**Topic: Business Cycle**  
**Skill: Conceptual**

12) Suppose the country of Dingo experienced an economic trough in January 2004. We can conclude that
    A) real GDP in Dingo was increasing in January 2004.
    B) an expansion occurred after January 2004.
    C) Dingo did not experience a recession in 2003.
    D) Dingo’s potential GDP fell in 2004.

   **Answer: B**

**Topic: Business Cycle**  
**Skill: Conceptual**

13) An observer of the economy notices that over the last nine months the unemployment rate has increased from 5.6 percent to 8.7 percent. During the same time the rate of growth in real gross domestic product has become negative. From this information we might conclude that
    A) inflation is probably rampant in this economy.
    B) a recession is occurring in this economy.
    C) an expansionary phase of the business cycle is in process.
    D) a peak in the business cycle will soon be reached.

   **Answer: B**

**Topic: Business Cycle**  
**Skill: Recognition**

14) A peak is the
    A) lower turning point of a business cycle when an expansion ends.
    B) lower turning point of a business cycle when a recession ends.
    C) upper turning point of a business cycle when an expansion ends.
    D) upper turning point of a business cycle when a recession ends.

   **Answer: C**

**Topic: Business Cycle**  
**Skill: Recognition**

15) Between the trough and the peak of the business cycle the economy
    A) experiences rising unemployment.
    B) is in an economic expansion.
    C) experiences falling real GDP.
    D) is in an economic recession.

   **Answer: B**
MONITORING CYCLES, JOBS, AND THE PRICE LEVEL

**Topic: Business Cycle**
**Skill: Recognition**

16) Recessions
   A) begin at the trough of the business cycle.
   B) are an economy-wide decrease in the level of economic activity.
   C) end at the peak of the business cycle.
   D) have not occurred in the United States after 1963.

*Answer: B*

**Topic: Business Cycle**
**Skill: Recognition**

17) Which of the following is a correct statement about business cycles?
   A) Expansions follow peaks.
   B) Expansions tend to last longer than recessions.
   C) The increase in real GDP from trough to peak is typically less than the decrease in real GDP from peak to trough.
   D) To count as a period of recession, real GDP must decrease for at least 1 year.

*Answer: D*

**Topic: Business Cycle**
**Skill: Analytical**

18) In the above figure, a recession begins at point ____ and an expansion begins at point ____.
   A) a; b
   B) b; c
   C) b; a
   D) d; c

*Answer: A*

**Topic: Jobs and Wages**

**Topic: Population Survey**
**Skill: Recognition**

20) 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*

21) 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: Working Age Population**
**Skill: Conceptual**

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

*Answer: C*
23) The labor force is the sum of
A) the working-age population and the number of unemployed people.
B) the number of employed people and the working-age population.
C) the number of employed people and the number of unemployed people.
D) the total population and the number of unemployed people.
Answer: C

24) 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

25) Unemployment as measured 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

26) 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: C

27) Which of the following is NOT 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

28) Which of the following people is NOT considered unemployed in the Current Population Survey?
A) The person has just finished school and has entered the labor force to look for work.
B) The person has been laid off and is looking for a new job.
C) The person is looking for work after not doing so for a time.
D) The person is discouraged about finding a job and so does not search for work.
Answer: D
29) Which of the following people would NOT be counted as unemployed in the Current Population Survey?
   A) The person has no job and has made an effort to find work in the last four weeks.
   B) The person is awaiting recall to a job after being laid off.
   C) The person is without a job and is making no effort to find work.
   D) The person is waiting to start a new job in thirty days.
   
   Answer: C

30) The unemployment rate is calculated as 100 times
   A) [(labor force) ÷ (population)].
   B) [(unemployment) ÷ (population)].
   C) [(unemployment) ÷ (labor force)].
   D) [(labor force) ÷ (unemployment)].
   
   Answer: C

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

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

33) 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 x 100.
   C) 10/80 x 100.
   D) There is not enough information provided to calculate the unemployment rate.
   
   Answer: D

34) 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 x 100.
   B) 5/80 x 100.
   C) 5/75 x 100.
   D) There is not enough information provided to calculate the unemployment rate.
   
   Answer: C

35) 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 x 100.
   B) 10/80 x 100.
   C) 15/80 x 100.
   D) 5/70 x 100.
   
   Answer: B
**Topic: Discouraged Workers**
**Skill: Conceptual**

36) Which of the following will decrease the unemployment rate?
   A) Discouraged 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**

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 for work.

**Topic: Population Survey**
**Skill: Conceptual**

37) The above table shows answers given by people interviewed in a government survey of households. Which individuals are considered to be 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**

<table>
<thead>
<tr>
<th>Total population (millions)</th>
<th>Currently employed (millions)</th>
<th>Not working and looking for work (millions)</th>
<th>Want to work but no longer looking for work (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>80</td>
<td>40</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>

**Topic: Population Survey**
**Skill: Analytical**

40) 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**

41) 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**
42) In the table above, the unemployment rate is
A) 50 percent.
B) 15 percent.
C) 10 percent.
D) 5 percent.
Answer: D

43) 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

44) The labor force participation rate is calculated as
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

46) Suppose the labor force in Tiny Town is 100 people. If the ____ in Tiny Town is 150 people, the labor force participation rate equals 100 times ____.
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

47) Over the last 30 years, the labor force participation rates of men
A) increased and the labor force participation rates of women decreased.
B) decreased and the labor force participation rates of women increased.
C) increased and the labor force participation rates of women increased.
D) decreased and the labor force participation rates of women decreased.
Answer: B

48) The employment-to-population ratio is the ratio 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

49) 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: Employment-to-Population Ratio**  
**Skill: Analytical**

50) 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**

51) Based on the following data for the country of Tiny Town, the employment-to-population ratio equals 100 times

<table>
<thead>
<tr>
<th>Category</th>
<th>Number (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discouraged workers</td>
<td>15</td>
</tr>
<tr>
<td>Unemployed workers</td>
<td>40</td>
</tr>
<tr>
<td>Employed workers</td>
<td>100</td>
</tr>
<tr>
<td>Population (16 years and over)</td>
<td>225</td>
</tr>
</tbody>
</table>

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: Recognition**

52) Over the last thirty years, the labor force participation rate ____ and the employment-to-population ratio ____.

A) increased; increased  
B) increased; decreased  
C) decreased; increased  
D) decreased; decreases

**Answer: A**

53) In the above table, the working age population is

A) 225 million.  
B) 100 million.  
C) 140 million.  
D) 155 million.

**Answer: A**

54) 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**

55) In the above table, the unemployment rate is

A) 6 percent.  
B) 24 percent.  
C) 18 percent.  
D) 29 percent.

**Answer: D**

56) In the above table, the labor force participation rate is

A) 55 percent.  
B) 44 percent.  
C) 62 percent.  
D) 69 percent.

**Answer: C**

57) In the above table, the employment-to-population ratio is

A) 51 percent.  
B) 42 percent.  
C) 62 percent.  
D) 44 percent.

**Answer: D**
<table>
<thead>
<tr>
<th>Component</th>
<th>Number of people (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 16</td>
<td>50</td>
</tr>
<tr>
<td>Working full-time</td>
<td>90</td>
</tr>
<tr>
<td>Working part-time</td>
<td>30</td>
</tr>
<tr>
<td>Retired</td>
<td>40</td>
</tr>
<tr>
<td>Unemployed</td>
<td>5</td>
</tr>
</tbody>
</table>

**Topic: Unemployment Rate**  
**Skill: Analytical**  
58) 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: Labor Force**  
**Skill: Analytical**  
59) 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 Participation Rate**  
**Skill: Analytical**  
60) 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**

<table>
<thead>
<tr>
<th>Component</th>
<th>Number of people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total population</td>
<td>2600</td>
</tr>
<tr>
<td>Working-age population</td>
<td>2000</td>
</tr>
<tr>
<td>Not in labor force</td>
<td>500</td>
</tr>
<tr>
<td>Employed</td>
<td>1300</td>
</tr>
</tbody>
</table>

**Topic: Population Survey**  
**Skill: Analytical**  
61) 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: Unemployment Rate**  
**Skill: Analytical**  
62) 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: Employment-to-Population Ratio**  
**Skill: Analytical**  
63) 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**
<table>
<thead>
<tr>
<th>Component</th>
<th>Number of people (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total population</td>
<td>246</td>
</tr>
<tr>
<td>Working-age population</td>
<td>207</td>
</tr>
<tr>
<td>Labor force</td>
<td>139</td>
</tr>
<tr>
<td>Employed</td>
<td>133</td>
</tr>
<tr>
<td>Unemployed</td>
<td>6</td>
</tr>
</tbody>
</table>

**Topic: Unemployment Rate**  
**Skill: Quantitative**  
64) 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: Labor Force Participation Rate**  
**Skill: Quantitative**  
65) The labor force participation rate is  
A) 67.1 percent.  
B) 64.0 percent.  
C) 95.7 percent.  
D) 56 percent.  
**Answer: A**

**Topic: Employment-to-Population Ratio**  
**Skill: Quantitative**  
66) The employment-to-population ratio is  
A) 67 percent.  
B) 64 percent.  
C) 50 percent.  
D) 62 percent.  
**Answer: B**

**Topic: Aggregate Hours**  
**Skill: Recognition**  
68) Aggregate hours  
A) are the total number of hours worked by people holding full time jobs.  
B) are the total number of hours worked by all people employed.  
C) are the total number of hours worked by all people age 21 and over.  
D) have decreased over the last thirty years.  
**Answer: B**

69) Which of the following best measures the total amount of labor used to produce GDP?  
A) The total number of people employed.  
B) The total number of people employed full time.  
C) The total hours worked by full time employees.  
D) The total hours worked by full and part time employees.  
**Answer: D**

70) Over the last 30 years, aggregate hours  
A) have increased at the same rate as the labor force participation rate.  
B) have an upward trend.  
C) have a downward trend.  
D) have decreased because the average hours per worker has decreased.  
**Answer: B**

71) Since 1963 in the United States, aggregate hours have ____ and average weekly hours per person has _____.  
A) increased over time; increased over time  
B) decreased over time; varied over the business cycle  
C) varied over the business cycle; increased over time  
D) increased over time; decreased over time  
**Answer: D**
72) During the past 3 recessions in the United States, aggregate hours have ____ and average hours per worker have ____.
   A) decreased; decreased  
   B) decreased; increased  
   C) increased; increased  
   D) increased; decreased  
   Answer: A

73) If aggregate hours worked grows more slowly than the number of people employed then
   A) people are working fewer hours on average.  
   B) people are working more hours on average.  
   C) there must be fewer part time workers.  
   D) None of the above are correct because aggregate hours cannot grow more slowly than the number of people employed.  
   Answer: A

74) The money wage rate is the same as
   A) the dollar wage in 1992 dollars.  
   B) the real wage rate.  
   C) the number of dollars per hour of work.  
   D) real disposable income.  
   Answer: C

75) The real wage rate is
   A) the money wage divided by the price level.  
   B) the money wage multiplied by the price level.  
   C) the money wage rate divided by the number of employed workers.  
   D) None of the above answers are correct.  
   Answer: A

76) The money wage rate equals $10 per hour. If the price level rises and the money wage does not change,
   A) the real wage decreases.  
   B) the quantity of goods and services that an hour of work can buy decreases.  
   C) the real wage increases.  
   D) Both answers A and B are correct.  
   Answer: D

77) The real wage rate
   A) has increased substantially over the past 30 years regardless of which measure is used.  
   B) has decreased over the past 10 years regardless of which measure is used.  
   C) has increased or remained about constant over the last 30 years, depending on the measure used.  
   D) includes only the actual salary paid and not the fringe benefits.  
   Answer: C

Unemployment and Full Employment

78) Job losers are people who
   A) are laid off permanently or temporarily.  
   B) quit a job to look for something better.  
   C) enter the labor force for the first time.  
   D) reenter the labor force after many years.  
   Answer: A

79) Suppose Andy is laid off from the automobile plant because of slow automobile sales. Andy is looking for a new job. Andy is considered
   A) a discouraged worker.  
   B) a job loser.  
   C) a job leaver.  
   D) not in the labor force.  
   Answer: B
Topic: Sources of Unemployment  
Skill: Recognition  
80) Job leavers are people who  
A) are laid off permanently or temporarily.  
B) quit a job to look for something better.  
C) enter the labor force for the first time.  
D) reenter the labor force after many years.  
Answer: B

Topic: Sources of Unemployment  
Skill: Conceptual  
81) Suppose Sophie quit her job at the Soda Shop to look for a better job. Sophie is considered  
A) a discouraged worker.  
B) a job loser.  
C) a job leaver.  
D) not in the labor force.  
Answer: C

Topic: Sources of Unemployment  
Skill: Conceptual  
82) Most unemployed people are unemployed because they are  
A) job leavers.  
B) job losers.  
C) reentrants into the labor force.  
D) new entrants into the labor force.  
Answer: B

Topic: Sources of Unemployment  
Skill: Recognition  
83) The smallest and most stable source of unemployment is  
A) job leavers.  
B) job losers.  
C) reentrants into the labor force.  
D) new entrants into the labor force.  
Answer: A

Topic: Duration of Unemployment  
Skill: Conceptual  
85) The duration of unemployment is  
A) long when the unemployment rate is low.  
B) short when the unemployment rate is high.  
C) long when the unemployment rate is high.  
D) longer during expansions than during recessions.  
Answer: C

Topic: Duration of Unemployment  
Skill: Conceptual  
86) The duration of a spell of unemployment  
A) falls during a recession and rises during an expansion.  
B) falls during both recessions and expansions.  
C) rises during a recession and falls during an expansion.  
D) rises during both recessions and expansions.  
Answer: C

Topic: Duration of Unemployment  
Skill: Conceptual  
87) The duration of time spent by unemployed people looking for jobs  
A) rises during recessions and falls during expansions.  
B) falls during recessions and rises during expansions.  
C) falls during both recessions and expansions.  
D) rises during both recessions and expansions.  
Answer: A

Topic: Demographics of Unemployment  
Skill: Recognition  
88) Which of the following groups has the highest unemployment rate?  
A) White teenagers.  
B) Black teenagers.  
C) Blacks, 20 years of age or older.  
D) Whites, 20 years of age or older.  
Answer: B

Topic: Demographics of Unemployment  
Skill: Recognition  
89) Which of the following groups has the lowest unemployment rate?  
A) White teenagers.  
B) Black teenagers.  
C) Blacks, 20 years of age or older.  
D) Whites, 20 years of age or older.  
Answer: D
Topic: Frictional Unemployment  
Skill: Recognition  
90) Frictional unemployment  
A) includes discouraged workers.  
B) is voluntary part-time unemployment.  
C) is unemployment associated with the changing of jobs in a changing economy.  
D) is unemployment associated with declining industries.  
Answer: C

Topic: Frictional Unemployment  
Skill: Conceptual  
91) 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: Conceptual  
92) 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: A

Topic: Frictional Unemployment  
Skill: Conceptual  
93) 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  
94) 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 increases.  
D) frictional unemployment increases.  
Answer: D

Topic: Frictional Unemployment  
Skill: Conceptual  
95) 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  
96) 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: Structural Unemployment  
Skill: Recognition  
97) 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
98) 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

99) 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

100) 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

101) 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

102) 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 would best be considered part of
A) frictional unemployment.
B) structural unemployment.
C) cyclical unemployment.
D) discouraged workers.
Answer: B

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.

103) The above table shows answers given by people interviewed in the Current Population Survey. Which person (people) is (are) considered unemployed?
A) A, B C, and D.
B) A, B, and C.
C) B and C.
D) A, B, and C.
Answer: C
Topic: Structural Unemployment
Skill: Conceptual
104) The above table shows answers given by people interviewed in the Current Population Survey. Which person (people) is (are) structurally unemployed?
A) A and B.
B) B.
C) C.
D) B and D.
Answer: B

Topic: Cyclical Unemployment
Skill: Recognition
105) 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
106) Which type of unemployment increases during a recession?
A) Cyclical unemployment.
B) Frictional unemployment.
C) Structural unemployment.
D) The natural rate of unemployment.
Answer: A

Topic: Cyclical Unemployment
Skill: Recognition
107) 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
108) 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: Conceptual
109) 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
110) 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
111) Cyclical unemployment
A) is the major part of natural rate of unemployment.
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
112) 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: Conceptual
113) Auto and steel workers commonly experience this type of unemployment in a recession.
A) Frictional unemployment
B) Cyclical unemployment
C) Structural unemployment
D) Natural rate of unemployment
Answer: B
114) 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

115) Recessions and expansions affect most strongly
which type of unemployment?
A) Frictional unemployment
B) Structural unemployment
C) Cyclical unemployment
D) Seasonal unemployment
Answer: C

116) 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

117) 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 look-
ing for work. He is an example of
A) frictional unemployment.
B) structural unemployment.
C) cyclical unemployment.
D) the natural rate of unemployment
Answer: C

118) 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

119) Full employment occurs when the
A) unemployment rate equals the natural rate of
unemployment.
B) structural unemployment rate equals the fric-
tional unemployment rate.
C) natural unemployment rate equals the frictional
unemployment rate.
D) cyclical unemployment rate equals the natural
rate of unemployment.
Answer: A

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

121) When the economy is at full employment the
A) natural rate of unemployment is equal to 0 per-
cent.
B) natural rate of unemployment equals the unem-
ployment rate.
C) natural rate of unemployment is equal to 10
percent.
D) unemployment rate is equal to 0 percent.
Answer: B

122) Suppose the natural rate of unemployment 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
123) Full employment means
A) zero unemployment.
B) only cyclical unemployment.
C) only frictional and structural unemployment.
D) None of the above answers are correct.
Answer: C

124) The natural rate of unemployment is
A) not a fixed percentage of the labor force.
B) occurs when only there is no cyclical unemployment present.
C) the unemployment rate when the economy is at potential GDP.
D) All of the above answers are correct.
Answer: D

125) Over the past two decades, in the United States we have seen
A) the natural rate of unemployment steadily increase.
B) the natural rate of unemployment vary over the business cycle.
C) the unemployment rate steadily decline.
D) the natural rate of unemployment decline.
Answer: D

126) The natural rate of unemployment
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

127) The unemployment rate is at the natural rate of unemployment 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

128) The natural rate of unemployment 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

129) 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 rate of unemployment.
Answer: D

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

131) When the economy moves into and out of recessions and expansions, the unemployment rate fluctuates around the
A) natural rate of unemployment.
B) structural unemployment rate.
C) cyclical unemployment.
D) frictional unemployment rate.
Answer: A
132) 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 rate of unemployment?
   A) 3 percent.
   B) 4 percent.
   C) 5 percent.
   D) 7 percent.
   Answer: B

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

134) The natural rate of unemployment
   A) estimated to be close to 9 percent in recent years in the United States.
   B) is 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

135) Which of the following statements is true?
   A) Real GDP fluctuates around potential GDP.
   B) Potential GDP fluctuates around real GDP.
   C) Potential GDP is the same as real GDP.
   D) When all of the economy’s resources are fully employed, the value of production is called real GDP.
   Answer: A

136) Potential GDP
   A) measures the actual production from year to year.
   B) measures the output that could be produced if the economy is at full employment.
   C) is cyclical.
   D) Both answers A and C are correct.
   Answer: B

137) When the unemployment rate is below the natural rate of unemployment,
   A) real GDP is greater than potential GDP.
   B) real GDP is less than potential GDP.
   C) real GDP equals potential GDP.
   D) None of the above is possible because it is impossible for the unemployment rate to be less than the natural rate.
   Answer: A

The Consumer Price Index

138) 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

139) 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
### Monitoring Cycles, Jobs, and the Price Level

<table>
<thead>
<tr>
<th>Year</th>
<th>Price index</th>
<th>Inflation rate (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>117</td>
<td>A</td>
</tr>
<tr>
<td>3</td>
<td>125</td>
<td>B</td>
</tr>
<tr>
<td>4</td>
<td>120</td>
<td>C</td>
</tr>
<tr>
<td>5</td>
<td>D</td>
<td>8.3</td>
</tr>
<tr>
<td>6</td>
<td>150</td>
<td>E</td>
</tr>
</tbody>
</table>

**Topic: Inflation Rate**

**Skill: Analytical**

140) 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**

141) 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**

142) 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**

143) 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**

144) 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**

145) If the CPI was 132.5 at the end of 2003 and 140.2 at the end of 2004, 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**

146) If the CPI was 121.5 at the end of 2004 and 138.3 at the end of 2005, 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**

147) If the CPI was 122.3 at the end of 2004 and 124.5 at the end of 2005, 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**
148) If the CPI was 132.5 at the end of 2004 and 137.5 at the end of 2005, 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

149) In 2004 the Consumer Price Index was equal to 163.8 and in 2005 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

150) The Consumer Price Index for country Beta in 2003 was equal to 203.5 and for 2004 it was 199.6. On the basis of this information which of the following statements is true?
A) Beta experienced an inflation rate of 3.9 percent.
B) Beta experienced a deflation rate of 3.9 percent.
C) Beta experienced an inflation rate of 1.9 percent.
D) Beta experienced a deflation rate of 1.9 percent.
Answer: D

151) If the CPI in 2004 was 100 and the CPI in 2005 was 115, the inflation rate was
A) 1.5 percent.
B) 15 percent.
C) 100 percent.
D) 115 percent.
Answer: B

152) 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

153) 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

154) 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

155) 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, Quality Improvement  
Skill: Conceptual  
156) Price indexes can overstate inflation because they 
A) omit some quality improvements.  
B) do not contain the correct collection of goods purchased by consumers.  
C) do not contain the prices of foreign goods.  
D) do not contain the prices of services.  
Answer: A  

Topic: Biased CPI, Commodity Substitution Bias  
Skill: Conceptual  
157) 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: Recognition  
158) 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  

Study Guide Questions  

Topic: Study Guide Question, Business Cycle  
Skill: Recognition  
159) Which is the proper order for the business cycle?  
A) Peak, recession, trough, expansion  
B) Peak, trough, expansion, recession  
C) Peak, expansion, trough, recession  
D) Peak, recession, expansion, trough  
Answer: A  

Topic: Study Guide Question, Business Cycle  
Skill: Conceptual  
160) Suppose that real GDP rises in all four quarters of 2005; thus 2005 would definitely be a year 
A) of expansion.  
B) with a business cycle peak.  
C) of recession.  
D) with a business cycle trough.  
Answer: A  

Skill: Recognition  
161) Who of the following is 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  

Skill: Conceptual  
162) 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  

Skill: Conceptual  
163) 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
164) 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

165) 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

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

167) If more unemployed workers stop looking for work, the unemployment rate will
A) not change.
B) fall.
C) rise.
D) probably change, but in an unpredictable direction.
Answer: B

168) At the natural rate of unemployment, there is no
A) frictional unemployment.
B) structural unemployment.
C) cyclical unemployment.
D) unemployment.
Answer: C

169) 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

170) 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

171) 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
MyEconLab Questions

Topic: Business Cycle
Level 1: Definitions and Concepts
172) An expansion begins at a ____ and ends at a ____.
   A) peak; recession  
   B) trough; peak  
   C) peak; trough  
   D) trough; recession
   Answer: B

Topic: Population Survey
Level 1: Definitions and Concepts
173) 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: Unemployment Rate
Level 1: Definitions and Concepts
174) 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: Labor Force Participation Rate
Level 1: Definitions and Concepts
175) 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: Employment-to-Population Ratio
Level 1: Definitions and Concepts
176) 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: B

Topic: Wage Rates
Level 1: Definitions and Concepts
177) The ____ wage rate is equal to the ____ wage rate divided by the ____.
   A) money; real; inflation rate  
   B) real; money; price level  
   C) real; money; inflation rate  
   D) money; real; level of real GDP
   Answer: B

Topic: Sources of Unemployment
Level 1: Definitions and Concepts
178) The smallest source of unemployment is ____.
   A) job losers  
   B) job leavers  
   C) retirees  
   D) discouraged workers
   Answer: B

Topic: Natural Rate of Unemployment
Level 1: Definitions and Concepts
179) The natural rate of unemployment ____.
   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: Consumer Price Index
Level 1: Definitions and Concepts
180) 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
Level 1: Definitions and Concepts
181) The Consumer Expenditure Survey is ____.
   A) updated quarterly  
   B) undertaken infrequently  
   C) updated monthly  
   D) updated annually
   Answer: B
Topic: Business Cycle
Level 2: Using Definitions and Concepts
182) Compared to other recessions, the recession of 2001 was
A) much more severe than normal.
B) more severe than normal.
C) about the same as usual.
D) more mild than normal.
Answer: D

Topic: Labor Force Participation Rate
Level 2: Using Definitions and Concepts
183) From 1963 to 2003, the labor force participation rate of women in the United States ____ at a ____ rate than the labor force participation rate of men ____.
A) increased; faster; increased
B) increased; faster; decreased
C) decreased; faster; decreased
D) increased; slower; decreased
Answer: B

Topic: Discouraged Workers
Level 2: Using Definitions and Concepts
184) During a recession, the ____.
A) number of aggregate hours worked increases
B) unemployment rate decreases
C) employment-to-population ratio increases
D) number of discouraged workers increases
Answer: D

Topic: The Sources of Unemployment
Level 2: Using Definitions and Concepts
185) People enter the labor force ____.
A) by being hired or recalled
B) when they switch from being unemployed to being employed
C) when their unemployment benefits run out
D) as entrants or reentrants
Answer: D

Topic: Aggregate Hours
Level 2: Using Definitions and Concepts
186) Between 1963 and 2003, average hours per worker in the United States ____.
A) did not change
B) decreased
C) increased
D) hovered at almost 30 hours per week
Answer: B

Topic: Wage Rates
Level 2: Using Definitions and Concepts
187) Between 1963 and 2003, the real wage rate of private manufacturing nonsupervisory workers ____.
A) increased by more than wages and salaries
B) increased
C) showed a downward trend
D) increased by more than wages, salaries, and supplements
Answer: B

Topic: Aggregate Hours
Level 2: Using Definitions and Concepts
188) Between 1963 and 2003, aggregate hours in the United States ____.
A) decreased during expansions
B) decreased
C) increased during recessions
D) decreased during recessions
Answer: D

Topic: Frictional Unemployment
Level 2: Using Definitions and Concepts
189) 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 fluctuation
Answer: C

Topic: Full Employment
Level 2: Using Definitions and Concepts
190) 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 rate of unemployment
D) there is no structural unemployment
Answer: C
**MONITORING CYCLES, JOBS, AND THE PRICE LEVEL**

**Topic: The Biased CPI, New Goods Bias**  
**Level 2: Using Definitions and Concepts**
191) 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: Structural Unemployment**  
**Level 3: Calculations and Predictions**
192) 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: Cyclical Unemployment**  
**Level 3: Calculations and Predictions**
193) 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: Population Survey**  
**Level 3: Calculations and Predictions**
194) 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: Employment-to-Population Ratio**  
**Level 3: Calculations and Predictions**
195) The ____ fluctuates more than does the ____.
   A) labor force participation rate; employment-to-population ratio  
   B) labor force participation rate; unemployment rate  
   C) employment-to-population ratio; labor force participation rate  
   D) employment-to-population ratio; unemployment rate

**Answer: C**

**Topic: Labor Force**  
**Level 3: Calculations and Predictions**
196) 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: Unemployment Rate**  
**Level 3: Calculations and Predictions**
197) In an economy, 19 million people are employed and 3 million are unemployed, but 2 million part-time workers would prefer full-time work. In addition, there are 2 million discouraged workers. How many people are in the labor force?
   A) 23 million  
   B) 19 million  
   C) 21 million  
   D) 22 million

**Answer: D**

**Topic: Unemployment Rate**  
**Level 3: Calculations and Predictions**
198) 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**
199) 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

200) 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

201) 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

202) If the number of people unemployed and the number of people in the labor force grow at the same rate, then the
A) labor force participation rate will decrease
B) unemployment rate will increase
C) unemployment rate will stay the same
D) labor force participation rate will increase
Answer: C

203) 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

204) If the unemployment rate falls, the labor force participation rate increases, and the employment-to-population ratio increases, then the economy is most likely in
A) an expansion
B) a recession
C) a golden age
D) a trough
Answer: A

205) In 2003, the money wage rate was $30.00 an hour and the real wage rate was $24.00 an hour. In 2004, the money wage rate was $40.00 an hour and the real wage rate was $30.00 an hour. In 2003, the GDP deflator was and in 2004 it was
A) 125; 133
B) 80; 75
C) 1.25; 1.26
D) 125; 126
Answer: A

206) When cyclical unemployment increases and other things remain the same, the
A) natural rate of unemployment increases
B) amount of frictional unemployment increases
C) amount of structural unemployment decreases
D) natural rate of unemployment does not change
Answer: D
Topic: Consumer Price Index
Level 4: Advanced Calculations and Predictions
207) In 2004, consumers in Dexter consumed only books and pens. The prices and quantities for 2004 and 2005 are listed in the table above. The reference base period for Dexter’s CPI is 2004. What is the cost of the CPI basket in 2004?

A) $430  
B) $335  
C) $320  
D) $540  
Answer: C

Topic: Consumer Price Index
Level 4: Advanced Calculations and Predictions
208) In 2004, consumers in Dexter consumed only books and pens. The prices and quantities for 2004 and 2005 are listed in the table above. The reference base period for Dexter’s CPI is 2004. What is the CPI in 2004?

A) 320  
B) 1.00  
C) 3.20  
D) 100  
Answer: D

Topic: Consumer Price Index
Level 4: Advanced Calculations and Predictions
209) In 2004, consumers in Dexter consumed only books and pens. The prices and quantities for 2004 and 2005 are listed in the table above. The reference base period for Dexter’s CPI is 2004. What is the cost of the CPI basket in 2005?

A) $430  
B) $335  
C) $320  
D) $540  
Answer: D

Topic: Inflation Rate
Level 4: Advanced Calculations and Predictions
210) In 2004, consumers in Dexter consumed only books and pens. The prices and quantities for 2004 and 2005 are listed in the table above. The reference base period for Dexter’s CPI is 2004. What is the inflation rate in 2005?

A) 69 percent  
B) zero  
C) 31 percent  
D) 2 percent  
Answer: A