

## Chapter 8

## ■ TRUE-FALSE QUESTIONS

Circle *T* if the statement is true, *F* if it is false.

1. The more useful of the two definitions of economic growth for comparing living standards across economies is an increase in real GDP per capita. T F
2. Suppose two economies both have GDPs of \$500 billion. If the GDPs grow at annual rates of 3% in the first economy and 5% in the second economy, the difference in their amounts of growth in one year is \$10 billion. T F
3. Growth rate estimates generally attempt to take into account changes in the quality of goods produced and changes in the amount of leisure members of the economy enjoy. T F
4. Increased labor productivity has been more important than increased labor inputs in the growth of the U.S. economy. T F
5. The U.S. economy has always experienced steady economic growth, price stability, and full employment. T F
6. The business cycle is best defined as alternating periods of increases and decreases in the rate of inflation in the economy. T F
7. Individual business cycles tend to be of roughly equal duration and intensity. T F
8. The unemployment rate is equal to the number of people in the labor force divided by the number of people who are unemployed. T F
9. Frictional unemployment is not only inevitable but also partly desirable so that people can voluntarily move to better jobs. T F
10. The essential difference between frictionally and structurally unemployed workers is that the former *do not have* and the latter *do have* salable skills. T F
11. When the number of people seeking employment is less than the number of job vacancies in the economy, the actual rate of unemployment is less than the natural rate of unemployment, and the price level will tend to rise. T F
12. If unemployment in the economy is at its natural rate, the actual and potential outputs of the economy are equal. T F

13. An economy cannot produce an actual real GDP that exceeds its potential real GDP. T F
14. Unemployment imposes equal burdens on different groups in the economy. T F
15. The economy's GDP gap is measured by deducting its actual GDP from its potential GDP. T F
16. The economic cost of cyclical unemployment is the goods and services that are not produced. T F
17. Inflation is defined as an increase in the total output of an economy. T F
18. From one year to the next, the consumer price index rose from 154.5 to 160.5. The rate of inflation was therefore 6.6%. T F
19. If the price level increases by 10% each year, the price level will double every 10 years. T F
20. With a moderate amount of unemployment in the economy, an increase in aggregate spending will generally increase both the price level and the output of the economy. T F
21. The theory of cost-push inflation explains rising prices in terms of factors that increase per unit production cost. T F
22. A person's real income is the amount of goods and services that the person's nominal (or money) income will enable him or her to purchase. T F
23. Whether inflation is anticipated or unanticipated, the effects of inflation on the distribution of income are the same. T F
24. Borrowers are hurt by unanticipated inflation. T F
25. Hyperinflation may cause economic collapse in an economy by encouraging speculation, hoarding, and decisions based largely on inflationary expectations. T F

#### ■ MULTIPLE-CHOICE QUESTIONS

Circle the letter that corresponds to the best answer.

1. Which is a benefit of real economic growth to a society?
- The society is less able to satisfy new wants.
  - Everyone enjoys a greater nominal income.
  - The burden of scarcity increases.
  - The standard of living increases.
2. If the real output of an economy were to increase from \$2000 billion to \$2100 billion in 1 year, the rate of growth of real output during that year would be
- 1%
  - 5%
  - 10%
  - 50%

3. Since 1940 real GDP in the United States has increased about
- onefold
  - twofold
  - fourfold
  - tenfold
4. Which is one of the four phases of a business cycle?
- inflation
  - recession
  - unemployment
  - hyperinflation
5. Most economists believe that the immediate determinant of the levels of domestic output and employment is
- the price level
  - the level of total spending
  - the size of the civilian labor force
  - the nation's stock of capital goods
6. Production and employment would be least affected by a severe depression in which type of industry?
- nondurable consumer goods
  - durable consumer goods
  - capital goods
  - labor goods
7. The unemployment rate in an economy is 8%. The total population of the economy is 250 million, and the size of the civilian labor force is 150 million. The number of employed workers in this economy is
- 12 million
  - 20 million
  - 138 million
  - 140 million
8. A worker who loses a job at a petroleum refinery because consumers and business firms switch from the use of oil to the burning of coal is an example of
- frictional unemployment
  - structural unemployment
  - cyclical unemployment
  - disguised unemployment
9. A worker who has quit one job and is taking 2 weeks off before reporting to a new job is an example of
- frictional unemployment
  - structural unemployment
  - cyclical unemployment
  - disguised unemployment
10. Insufficient total spending in the economy results in
- frictional unemployment
  - structural unemployment
  - cyclical unemployment
  - disguised unemployment
11. The full-employment unemployment rate in the economy has been achieved when
- frictional unemployment is zero
  - structural unemployment is zero
  - cyclical unemployment is zero
  - the natural rate of unemployment is zero

12. Which has helped decrease the natural rate of unemployment in the United States in recent years?

- (a) a smaller proportion of young workers in the labor force
- (b) the increased size of benefits for the unemployed
- (c) less competition in product and labor markets
- (d) more workers covered by unemployment programs

13. The labor force includes those who are

- (a) less than 16 years of age
- (b) in mental institutions
- (c) not seeking work
- (d) employed

14. The price of a good has doubled in about 14 years. The approximate annual percentage rate of increase in the price level over this period has been

- (a) 2%
- (b) 3%
- (c) 4%
- (d) 5%

15. The unemployment data collected by the Bureau of Labor Statistics have been criticized because

- (a) part-time workers are not counted in the number of workers employed
- (b) discouraged workers are not considered a part of the labor force
- (c) it covers frictional unemployment, but not cyclical unemployment, which inflates unemployment figures
- (d) the underground economy may understate unemployment

16. Okun's law predicts that when the actual unemployment rate exceeds the natural rate of unemployment by two percentage points, the GDP gap will equal

- (a) 2% of the potential GDP
- (b) 3% of the potential GDP
- (c) 4% of the potential GDP
- (d) 5% of the potential GDP

17. If the GDP gap were equal to 6% of the potential GDP, the actual unemployment rate would exceed the natural rate of unemployment by

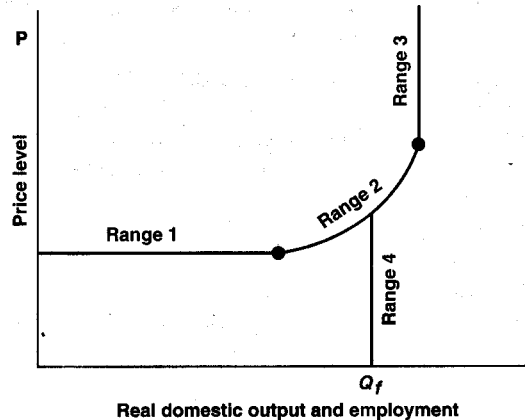
- (a) two percentage points
- (b) three percentage points
- (c) four percentage points
- (d) five percentage points

18. The burden of unemployment is *least* felt by

- (a) white-collar workers
- (b) teenagers
- (c) blacks
- (d) males

19. If the consumer price index was 110 in one year and 117 in the next year, then the rate of inflation from one year to the next was

- (a) 3.5%
- (b) 4.7%
- (c) 6.4%
- (d) 7.1%



20. In which range does the price level begin to rise as the economy either approaches or surpasses the full employment level of output?

- (a) range 1
- (b) range 2
- (c) range 3
- (d) range 4

21. Only two resources, capital and labor, are used in an economy to produce an output of 300 million units. If the total cost of capital resources is \$150 million and the total cost of labor resources is \$50 million, then the per unit production costs in this economy are

- (a) \$0.67 million
- (b) \$1.50 million
- (c) \$2.00 million
- (d) \$3.00 million

22. If the economy can supply no more resources to production, an increase in aggregate spending will cause

- (a) output and prices to increase
- (b) output and employment to increase
- (c) nominal income and prices to increase
- (d) employment and nominal income to increase

23. If the economy is experiencing a depression with substantial unemployment, an increase in total spending will cause

- (a) a decrease in the *real* income of the economy
- (b) little or no increase in the level of prices
- (c) an increase in the *real* income and a decrease in the *nominal* income of the economy
- (d) proportionate increases in the price level, output, and income in the economy

24. If a person's nominal income increases by 8% while the price level increases by 10%, the person's real income

- (a) increases by 2%
- (b) increases by 18%
- (c) decreases by 18%
- (d) decreases by 2%

25. If the average level of nominal income is \$21,000 and the price level index is 154, the average real income would be about

- (a) \$12,546
- (b) \$13,636

Use the following graph to answer Question 20.

- (c) \$15,299
- (d) \$17,823

26. With no inflation, a bank would be willing to lend a business firm \$10 million at an annual interest rate of 8%. But, if the rate of inflation was anticipated to be 6%, the bank would charge the firm an annual interest rate of

- (a) 2%
- (b) 6%
- (c) 8%
- (d) 14%

27. Who would be hurt by *unanticipated* inflation?

- (a) those living on incomes with cost-of-living adjustments
- (b) those who find prices rising less rapidly than their nominal incomes
- (c) those who lent money at a fixed interest rate
- (d) those who became debtors when prices were lower

28. Some economists argue that *mild* demand-pull inflation at less than full employment results in

- (a) rising real output and employment
- (b) falling real output and employment
- (c) a rising price level and falling employment
- (d) a falling price level and rising employment

29. Which contributes to cost-push inflation?

- (a) an increase in employment and output
- (b) an increase in per-unit production costs
- (c) a decrease in resource prices
- (d) an increase in unemployment

30. If an economy has experienced an inflation rate of over 1000% per year for several years, this economic condition would best be described as

- (a) a cost-of-living adjustment
- (b) cost-push inflation
- (c) hyperinflation
- (d) GDP gap