

Chapter 7 Unemployment, Inflation, and Long-Run Growth

7.1 Unemployment

1 Multiple Choice

- 1) We can safely say that total output can increase if there is a(n)
- A) increase in the size of the labor force and a decrease in the productivity of workers.
 - B) decrease in the size of capital and an increase in the productivity of machines.
 - C) increase in the number of machines per worker.
 - D) decrease in the number of workers per machine.

Answer: C

- 2) The productivity of workers is defined as the
- A) total output produced by the labor force.
 - B) output produced by a worker per hour.
 - C) number of hours a worker spends at work.
 - D) number of workers needed to produce one day's volume of output.

Answer: B

- 3) The capital per worker ratio is a measure of
- A) how many tools or machines each worker has to work with.
 - B) how productive workers are.
 - C) how much GDP is growing.
 - D) how much borrowed money is needed per worker.

Answer: A

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- 4) Productivity is the ratio of
- A) total output to the total number of worker hours.
 - B) total output to the total population.
 - C) total output to the total number of unemployed.
 - D) total capital to the total number of workers.

Answer: A

- 8) For you to be considered out of the labor force, you can be
- A) a full-time student.
 - B) a full-time retiree.
 - C) a full-time volunteer.
 - D) any of the above

Answer: D

- 9) Cheryl graduated from college a month ago and is now without work. She accepted a job that will start next month. Today, Cheryl is
- A) not in the labor force.

- B) in the labor force.
 - C) employed.
 - D) a discouraged worker.
- Answer: B

- 10) The number of people unemployed equals
- A) the number of people employed minus the labor force.
 - B) the labor force plus the number of people employed.
 - C) the labor force minus the number of people employed.
 - D) the number of people employed divided by the labor force.
- Answer: C

- 11) Jake retired from the police force. He started working an hour or two a day at a paid job in city's courthouse. Jake is
- A) employed.
 - B) in the labor force.
 - C) unemployed.
 - D) not in the labor force.
- Answer: A

- 12) Diane lost her job and immediately started looking for another job. As a result the
- A) unemployment rate increases.
 - B) labor force increases.
 - C) labor force decreases.
 - D) unemployment rate remains constant.
- Answer: A

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Refer to the information provided in Table 7.1 below to answer the questions that follow.

Table 7.1

Employed	14,000 people
Unemployed	3,000 people
Not in the Labor Force	4,000 people

- 13) Refer to Table 7.1. The labor force equals
- A) 14,000 people.
 - B) 17,000 people.
 - C) 18,000 people.
 - D) 21,000 people.
- Answer: B

- 14) Refer to Table 7.1. The unemployment rate is
- A) 17.6%.
 - B) 16.7%.
 - C) 14.3%.
 - D) 25.0%.

Answer: A

15) Refer to Table 7.1. The labor-force participation rate is

- A) 75.0%.
- B) 66.7%.
- C) 77.8%.
- D) 80.9%.

Answer: D

16) Refer to Table 7.1. The employment rate is

- A) 85.7%.
- B) 83.3%.
- C) 82.4%.
- D) 75.0%.

Answer: C

Refer to the information provided in Table 7.2 below to answer the questions that follow.

Table 7.2

Labor force participation rate	75%
Total population 16 years of age and older	200 million
Unemployment rate	10%

17) Refer to Table 7.2. The labor force

- A) equals 150 million.
- B) equals 130 million.
- C) equals 170 million
- D) cannot be determined from this information.

Answer: A

18) Refer to Table 7.2. The total number of people unemployed is

- A) 20 million.
- B) 13 million.
- C) 17 million.
- D) 15 million.

Answer: D

19) Refer to Table 7.2. The total number of people employed is

- A) 153 million.
- B) 117 million.
- C) 135 million.
- D) 180 million.

Answer: C

20) The unemployment rate is

- A) $\text{unemployed}/\text{population} \times 100$.
- B) $(\text{employed} - \text{unemployed})/\text{labor force} \times 100$.
- C) $(\text{labor force} - \text{employed})/\text{labor force} \times 100$.

D) $(\text{employed} - \text{labor force}) / \text{employed} \times 100$.

Answer: C

21) The number of people classified as employed is 260,000 and the number of people classified as unemployed is 30,000. The size of the labor force

A) equals 290,000.

B) equals 230,000.

C) equals 260,000.

D) equals 320,000.

Answer: A

22) The number of people classified as employed is 350,000 and the number of people in the labor force is 500,000. The total number of people classified as unemployed is

A) 350,000.

B) 150,000.

C) 425,000.

D) 500,000.

Answer: B

23) If the number of people classified as unemployed is 20,000 and the number of people classified as employed is 400,000, what is the unemployment rate?

A) 2.0%

B) 4.8%

C) 5.0%

D) 9.2%

Answer: B

25) If the number of people employed is 150,000 and the labor force is 170,000, the unemployment rate is

A) 6.25%.

B) 11.76%.

C) 2.5%.

D) 6.55%.

Answer: B

26) If the unemployment rate is 6.2% and the number of people employed is 200,000, the total number of people unemployed is approximately

A) 12,400 people

B) 10,970 people.

C) 13,220 people.

D) cannot be determined from this information

Answer: C

27) If the unemployment rate is 6.2% and the number of people employed is 200,000, the labor force is approximately

A) 212,400 people.

B) 210,970 people

C) 213,220 people.

D) cannot be determined from this information

Answer: C

28) If the labor force is 320,000 and the total population 16 years of age or older is 400,000, the labor-force participation rate is

A) 72%. B) 76%. C) 80%. D) 88%.

Answer: C

29) If the labor-force participation rate is 82% and the total population 16 years of age or older is 1 million people, the labor force is

A) 910,000 people. B) 820,000 people.

C) 740,000 people. D) 180,000 people.

Answer: B

30) If the number of unemployed equals 30,000, the number of employed equals 60,000, and the number not in the labor force is 10,000, the labor-force participation rate

A) is 90%.

B) is 67%.

C) is 88.9%.

D) cannot be determined from this information.

Answer: A

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31) If the number of unemployed equals 240,000 and the number of employed equals 300,000, the labor-force participation rate

A) is 80%.

B) is 24%.

C) is 55.6%.

D) cannot be determined from this information.

Answer: D

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33) When an individual quits his/her job and decides to stay at home for a while, the labor -force participation rate

A) decreases.

B) increases.

C) stays the same.

D) may increase or decrease, depending on the length of time he/she stays at home.

Answer: A

34) Mike has just graduated from college and is now looking for a job, but has not yet found one. This causes the unemployment rate to _____ and the labor -force participation rate to _____.

A) increase; decrease

B) stay the same; stay the same

C) increase; increase

D) increase; stay the same

Answer: C

- 35) Discouraged workers are
- A) considered cyclically unemployed.
 - B) considered structurally unemployed.
 - C) considered frictionally unemployed.
 - D) not considered as part of the labor force.

Answer: D

- 37) When 100 people who were previously looking for jobs stop looking for jobs, the
- A) unemployment rate increases.
 - B) size of the labor force decreases.
 - C) labor-force participation rate does not change.
 - D) unemployment rate does not change.

Answer: B

- 38) Classifying discouraged workers as unemployed would
- A) increase the unemployment rate.
 - B) decrease the unemployment rate.
 - C) not change the unemployment rate.
 - D) have an indeterminate impact on the unemployment rate.

Answer: A

- 39) In normal times the number of discouraged workers is approximately _____ of the labor force.

- A) .5%
- B) 4%
- C) 3%
- D) 1%

Answer: D

- 40) Which of the following groups has the highest unemployment rate among teenagers?

- A) white males
- B) African American males
- C) white females
- D) African American females

Answer: B

- 41) Which of the following statements is TRUE?

- A) The unemployment rate does not tell us anything about the duration of unemployment.
- B) The duration of unemployment decreases during recessions.
- C) The duration of unemployment increases during economic expansions.
- D) The median duration of unemployment is usually greater than the average duration.

Answer: A

- 42) The labor force participation rate is the

- A) total number of people who are participating in the labor force.
- B) ratio of the number of employed people to the number of unemployed people.

- C) ratio of the labor force to the total population 16 years old or older.
- D) the number of people in the labor force minus the number of people who are unemployed.

Answer: C

43) During recessions, the number of discouraged workers _____ and this _____ the unemployment rate.

- A) falls; reduces
- B) decreases; increases
- C) increases; reduces
- D) increases; increases

Answer: C

45) When an economics professor quits his/her job at a university and starts looking for a better job in another university, he/she is

- A) frictionally unemployed.
- B) structurally unemployed.
- C) cyclically unemployed.
- D) naturally unemployed.

Answer: A

46) Increasing the efficiency of various employment agencies to find better matches for those looking for jobs will

- A) reduce the natural rate of unemployment.
- B) reduce structural unemployment.
- C) reduce cyclical unemployment.
- D) not affect frictional unemployment.

Answer: A

47) A man is fired from his job because he was late for work too many times. While he is searching for another job he would be classified as

- A) not in the labor force because his employer had a legitimate reason for firing him.
- B) structurally unemployed.
- C) cyclically unemployed.
- D) frictionally unemployed.

Answer: D

48) When the Fed slows the rate of growth of the money supply to slow down the economy, the unemployment type that will be directly affected is the

- A) frictional unemployment.
- B) structural unemployment.
- C) cyclical unemployment.
- D) natural rate of unemployment.

Answer: C

49) When an individual is not working and is not looking for a job because he/she lacks any marketable job skills, he/she is

- A) structurally unemployed.
- B) frictionally unemployed.
- C) cyclically unemployed.
- D) none of the above

Answer: D

50) Structural unemployment is the

- A) portion of unemployment that is due to changes in the structure of the economy that result in a significant loss of jobs in certain industries.
- B) unemployment that occurs during recessions and depressions.
- C) portion of unemployment that is due to the normal working of the labor market.
- D) unemployment that results when people become discouraged about their chances of finding a job so they stop looking for work.

Answer: A

51) An auto worker in Ohio who loses her job because the company relocated the plant to another country represents an example of

- A) frictional unemployment.
- B) structural unemployment.
- C) cyclical unemployment.
- D) natural unemployment.

Answer: B

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3) An individual who cannot find a job because his or her job skills have become obsolete is an example of

- A) frictional unemployment.
- B) structural unemployment.
- C) cyclical unemployment.
- D) seasonal unemployment.

Answer: B

54) The natural rate of unemployment is generally thought of as the

- A) ratio of the frictional unemployment rate to the cyclical unemployment rate.
- B) sum of structural unemployment and cyclical unemployment.
- C) sum of frictional unemployment and cyclical unemployment.
- D) sum of frictional unemployment and structural unemployment.

Answer: D

55) The sum of frictional and structural unemployment is thought of as the

- A) natural rate of unemployment.
- B) normal rate of unemployment.
- C) cyclical rate of unemployment.
- D) seasonal rate of unemployment.

Answer: A

57) If the labor market becomes more efficient so that the unemployed are more quickly matched with jobs, then

- A) the natural rate of unemployment will increase.
- B) the natural rate of unemployment will decrease.
- C) the natural rate of unemployment will not change.
- D) the natural rate of unemployment could either increase or decrease.

Answer: B

59) The increase in unemployment that occurs during recessions and depressions is called

- A) frictional unemployment.
- B) structural unemployment.
- C) cyclical unemployment.
- D) normal unemployment.

Answer: C

60) Cyclical unemployment is the

- A) portion of unemployment that is due to changes in the structure of the economy that result in a significant loss of jobs in certain industries.
- B) unemployment that occurs during recessions and depressions.
- C) portion of unemployment that is due to the normal working of the labor market.
- D) unemployment that results when people become discouraged about their chances of finding a job so they stop looking for work.

Answer: B

61) The demand for refrigerators falls when the economy enters a downturn. If a refrigerator manufacturer lays off workers during an economic downturn, this would be an example of

- A) frictional unemployment.
- B) natural unemployment.
- C) structural unemployment.
- D) cyclical unemployment.

Answer: D

2 True/False

1) When more people who are not working start looking for jobs, the labor -force participation rate increases.

Answer: TRUE

2) Labor productivity is total output divided by the total number of worker hours.

Answer: TRUE

3) An increase in search costs will decrease structural unemployment.

Answer: FALSE

4) The natural rate of unemployment is the unemployment rate during a period of full employment.

Answer: TRUE

5) Anyone 16 years of age or older who is not classified as employed is classified as unemployed.

Answer: FALSE

6) If discouraged workers were counted as unemployed, the measured unemployment rate would increase.

Answer: TRUE

7) An unemployment rate of 10% means that the average worker has been unemployed for 10% of the year.

Answer: FALSE

8) If labor markets were perfectly efficient, the unemployment rate would fall to zero.

Answer: FALSE

9) The natural rate of unemployment in the economy is determined by the Congress and the president of the country.

Answer: FALSE

7.2 Inflation

1) In which of the following conditions is the inflation rate likely to fall and the unemployment rate likely to rise?

A) hyperinflation B) recession C) boom D) stagflation

Answer: B

2) Which of the following statements is TRUE?

A) The costs of recessions are distributed equally among all groups of the population.

B) Recessions tend to increase the demand for imports and therefore improve the nation's balance of payments.

C) Recessions may increase efficiency by driving the least efficient firms in the economy out of business.

D) A recession may lead to an increase in the inflation rate.

Answer: C

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3) An economic boom tends to _____ the demand for imports, which _____ a nation's balance of payments.

A) reduce; worsens. B) reduce; improves.

C) increase; improves. D) increase; worsens.

Answer: D

4) The floods of 1993 caused the price of corn to increase. This is an example of

A) inflation. B) deflation.

C) a sustained inflation. D) the operations of supply and demand.

Answer: D

5) The decrease in the demand for mainframe computers caused manufacturers of mainframe computers to reduce prices by 20%. This is an example of

A) inflation. B) deflation.

C) a sustained inflation. D) the operations of supply and demand.

Answer: D

6) Inflation is an increase in
A) the price of one item. B) the overall price level.
C) the average income level. D) real gross national product.

Answer: B

7) An increase in the overall price level is
A) inflation.
B) deflation.
C) a price index.
D) a recession.

Answer: A

8) Deflation is a decrease in
A) the price of one item.
B) the overall price level.
C) the average income level.
D) real gross national product.

Answer: B

9) An increase in the overall price level that continues over a significant period of time is
A) high inflation.
B) sustained recovery.
C) sustained inflation.
D) super inflation.

Answer: C

10) A price index is
A) a measurement showing how the average price of a bundle of goods changes over time.
B) a measurement showing the cost of a bundle of goods at a point in time.
C) a sustained increase in the overall price level.
D) a decrease in the overall price level.

Answer: A

Refer to the information provided in Table 7.3 below to answer the questions that follow.
Table 7.3

Table 7.3

		Price per Unit in			
		2005	2006	2007	2008
Units Purchased					
Blueberries	8	\$2.00	\$2.00	\$2.10	\$2.40
Pineapples	5	\$2.00	\$2.50	\$2.50	\$3.00
Cheese	3	\$2.50	\$3.00	\$3.50	\$4.00

11) Refer to Table 7.3. Suppose 2006 is the base year. The price index in 2006 is

- A) 1,000.
- B) 100.
- C) 1.
- D) 10.

Answer: B

12) Refer to Table 7.3. If 2006 is the base year, the price index in 2005 is

- A) 96.0.
- B) 104.0.
- C) 111.9.
- D) 89.3.

Answer: D

13) Refer to Table 7.3. If 2006 is the base year, the price index in 2007 is

- A) 93.9.
- B) 106.1.
- C) 94.2.
- D) 105.8.

Answer: B

14) Refer to Table 7.3 If 2006 is the base year, the price index in 2008 is

- A) 81.2. B) 118.8. C) 123.2. D) 86.8.

Answer: C

15) Refer to Table 7.3. If 2006 is the base year, the inflation rate between 2006 and 2007 is

- A) 3.9%. B) 10.2%. C) 7.4%. D) 6.1%.

Answer: D

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16) Refer to Table 7.3. If 2006 is the base year, the inflation rate between 2006 and 2007 is _____%, and the inflation rate between 2007 and 2008 is _____%.

A) 7.4; 13.9 B) 6.1; 16.1 C) 3.9; 17.1 D) 10.2; 10.4

Answer: B

17) Refer to Table 7.3. The lowest inflation rate is between the years

A) 2007 and 2008.

B) 2006 and 2007.

C) 2005 and 2006.

D) cannot be determined from the given information

Answer: B

Refer to the information provided in Table 7.4 below to answer the questions that follow.

Table 7.4

	Units Purchased	Price per Unit in		
		2006	2007	2008
Good A	5	\$1.00	\$1.50	\$1.50
Good B	10	\$2.00	\$2.50	\$3.00
Good C	4	\$4.00	\$4.50	\$5.00

18) Refer to Table 7.4. The bundle price for the goods in period 2006 is

A) \$100. B) \$41. C) \$50.50. D) \$57.50.

Answer: B

19) Refer to Table 7.4. If 2006 is the base period, the price index in 2006 is

A) 1000. B) 100. C) 10. D) 1.

Answer: B

20) Refer to Table 7.4. If 2006 is the base year, the price index in 2007 is

A) 81.9. B) 123.2. C) 119.1. D) 76.8.

Answer: B

21) Refer to Table 7.4. If 2006 is the base year, the price index in 2008 is

A) 71.3. B) 140.2. C) 59.8. D) 128.7.

Answer: B

22) Refer to Table 7.4. If 2006 is the base year, the inflation rate between 2006 and 2007 is
A) 12.4%. B) 19.1%. C) 23.2%. D) 17.6%.

Answer: C

23) Refer to Table 7.4. If 2006 is the base year, the inflation rate between 2006 and 2008 is
A) 28.7%. B) 17.4%. C) 25.1%. D) 40.2%.

Answer: D

24) Refer to Table 7.4. If 2007 is the base year, the inflation rate between 2007 and 2008 is
A) 12.2%. B) 7.0%. C) 13.9%. D) 9.4%.

Answer: C

25) If period 1 is the base year, the bundle price of goods in period 1 is \$300, and the bundle price of goods in period 2 is \$320, the period 2 price index is

A) 93.8. B) 106.2. C) 93.3. D) 106.7.

Answer: D

26) If 2007 is the base year, the bundle price of goods in 2007 is \$500, and the bundle price of goods in 2008 is \$700, the 2008 price index is

A) 128.6. B) 140.0. C) 71.4. D) 60.0.

Answer: B

27) If the price index in period 2 is 109 and the price index in period 3 is 125, the rate of inflation between period 2 and period 3 is

A) 16%. B) 9%. C) 14.7%. D) 8.7%.

Answer: C

28) If 2007 is the base year and the inflation rate between 2007 and 2008 is 6.4%, the price index in 2008 is

A) 16.4.

B) 106.4.

C) 64.

D) cannot be determined from this information because the index in the base year is not given

Answer: B

29) If 2007 is the base year and the inflation rate between 2007 and 2008 is -4.5, the price index in 2008 is

A) 104.5.

B) -145.

C) 95.5.

D) cannot be determined from this information because the base year is not known

Answer: C

30) If the price index in 2007 is 115 and the price index in 2008 is 102, the rate of inflation between 2007 and 2008 is

A) 12.7%. B) -11.3%. C) -13.0%. D) 13.0%.

Answer: B

31) The index used most often to measure inflation is the

A) producer price index.

B) consumer price index.

C) wholesale price index.

D) GDP deflator.

Answer: B

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32) If the CPI in 2007 was 114.7 and the CPI in 2008 was 124.5, then the rate of inflation between 2007 and 2008 was

A) 9.8%. B) 8.5%. C) 7.9%. D) 14.7%.

Answer: B

33) If the CPI in 2007 was 104 and the CPI in 2008 was 106, then the rate of inflation between 2007 and 2008 was

A) 2.0%. B) 1.92%. C) 1.89%. D) 2.2%.

Answer: B

34) If the CPI in period 1 is 180 and the CPI in period 2 is 240, then the rate of inflation between period 1 and period 2 is

A) 66.7%. B) 25%. C) 33.33%. D) 50%.

Answer: C

35) The CPI in period 1 is 300 and the CPI in period 2 is 150. The rate of inflation between period 1 and period 2 is

A) -50%. B) -100%. C) 33.33%. D) -60%.

Answer: A

36) Which of the following statements is FALSE?

A) One problem with any fixed-bundle index as a measure of the cost of living is that it does not account for substitutions that consumers might make in response to price changes.

B) The producer price index is considered to be a leading indicator of future inflation rates.

C) The best overall indicator of inflationary pressures in the economy is the GDP deflator.

D) The consumer price index somewhat understates changes in the cost of living.

Answer: D

37) A price index that tends to be a leading indicator of future inflation rates is the

A) consumer price index. B) producer price index.

C) GDP price index. D) retail price index.

Answer: B

38) The broadest-based price index available is the

A) GDP deflator. B) producer price index.

C) consumer price index. D) wholesale price index.

Answer: A

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39) Most economists consider the _____ as the best overall indicator of inflationary pressures in the economy.

A) producer price index B) GDP deflator

C) wholesale price index D) consumer price index

Answer: B

40) Which of the following statements is FALSE?

A) An individual living on a fixed income is always made worse off as a result of inflation.

B) Those individuals receiving welfare benefits have been harmed by inflation because increases in welfare payments have not kept pace with inflation.

C) Inflation will have no effect on an individual whose income is indexed to the inflation rate.

D) Some people in society benefit from inflation.

Answer: C

41) The difference between the interest rate on a loan and the inflation rate is the
A) nominal interest rate. B) inflation premium.
C) real interest rate. D) expected interest rate.

Answer: C

42) Which of the following increases the real interest rate?

- A) a decrease in the nominal interest rate, holding the inflation rate constant
- B) an increase in both the nominal interest rate and the inflation rate by the same percentage points
- C) a decrease in the inflation rate, holding the nominal interest rate constant
- D) a decrease in both the nominal interest rate and the inflation rate by the same percentage points

Answer: C

43) If Mr. Garrison is paid an interest rate of 4% on his savings, but the inflation rate is 7%, the real interest rate Mr. Garrison earns is

- A) 4%. B) -3%. C) -7%. D) 28%.

Answer: B

44) You want to make a 10% real return on a loan that you are planning to make, and the expected inflation rate during the period of the loan is 4%. You should charge a nominal interest rate of

- A) 6%. B) -6%. C) 10%. D) 14%.

Answer: D

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45) Lola wants to make an 6% real return on a loan that she is planning to make, and the expected inflation rate during the period of the loan is 5%. She should charge an interest rate of

- A) 6%. B) 16%. C) 11%. D) 1%.

Answer: C

46) If the inflation rate is smaller than the nominal interest rate, the real interest rate is

- A) positive. B) negative.
- C) zero. D) either positive or zero.

Answer: A

47) Eliza wants to borrow \$100 from Sandy. Sandy wants to make 4% real return on his money, so they both agree on a 4% interest rate paid next year. Eliza and Sandy did not anticipate any inflation, yet the actual inflation turned out to be -5% next year. In this case,

- A) Eliza will pay an 9% real interest rate.
- B) Sandy is better off.
- C) Eliza will pay a 4% nominal interest rate.
- D) all of the above

Answer: D

48) Dean borrows \$400 from Tim. Tim wants to make a 10% real return on his money, so they both agree on a 10% interest rate paid next year. Dean and Tim did not anticipate any inflation, yet the actual inflation turned out to be 4% next year. In this case,

- A) Tim is better off.
- B) Dean will pay \$56 a year from now on.
- C) Dean is better off.
- D) Tim will receive more than 10% of real rate of return a year from now.

Answer: C

49) Which of the following is a cost of anticipated inflation?

- A) Debtors are made worse off.
- B) If people are not fully informed about the price level changes, resources will be misallocated.
- C) The degree of risk associated with investments in the economy increases.
- D) Creditors are made worse off.

Answer: B

50) Stopping inflation

- A) can only benefit the economy, because the price level will be reduced.
- B) may be costly, if the inflation is stopped by inducing a recession.
- C) may be costly, but the benefits of stopping inflation will always outweigh the costs of such actions.
- D) will have no benefits or costs associated with it.

Answer: B

51) Which of the following statements is FALSE?

- A) Whether you gain or lose during a period of inflation depends on whether your income rises faster or slower than the prices of the things you buy.
- B) Inflation that is higher than expected benefits debtors, and inflation that is lower than expected benefits creditors.
- C) There are no costs or losses associated with anticipated inflation.
- D) When unanticipated inflation occurs regularly, the degree of risk associated with investments in the economy increases.

Answer: C

52) When unanticipated inflation occurs regularly, the degree of risk associated with investments in the economy

- A) increases. B) decreases.
- C) remains stable. D) falls to zero.

Answer: A

53) Which of the following is TRUE?

- A) A recession will lead to reduced output in the future, but inflation has no effect on future output.
- B) Both recessions and inflations may reduce output in the future.
- C) A recession will lead to reduced output in the future, but inflation will lead to increased output in the future.
- D) A recession will lead to increased output in the future, but inflation will lead to decreased output in the future.

Answer: B

2 True/False

1) The CPI somewhat overstates changes in the cost of living because it does not allow for substitutions that consumers might make in response to price changes.

Answer: TRUE

2) A 100% increase in the price of salt changes the CPI more than a 10% increase in rent.

Answer: FALSE

3) An inflation rate that is lower than expected benefits creditors.

Answer: TRUE

4) There are no costs associated with inflation if the inflation rate is perfectly anticipated.

Answer: FALSE

5) The actual real rate of interest is the nominal rate less the actual inflation rate.

Answer: TRUE

7.3 Long-Run Growth

1) Which of the following is NOT a desirable feature in an economy?

- A) rapid increase in output per worker
- B) rapid increase in the general price level
- C) low unemployment
- D) low inflation

Answer: B

2) Which of the following is a desirable characteristic in an economy?

- A) high inflation
- B) rapid increase in the general price level
- C) low unemployment
- D) low employment

Answer: C

3) Which of the following is a desirable characteristic in an economy?

- A) growing per capita output
- B) rapid increase in the general price level
- C) population growing the same rate as output
- D) population growing faster than output

Answer: A

4) Which of the following is a desirable characteristic in an economy?

- A) growing per capita output
- B) high inflation
- C) cyclical unemployment
- D) sustained deflation

Answer: A

5) Output in an economy can be increased by

- A) adding more workers. B) limiting the work week.
- C) using fewer machines. D) decreasing inflation.

Answer: A

6) Human capital is

- A) the machines people own.
- B) the money people have.
- C) the mental or physical skills people have.
- D) the property people own.

Answer: C

7) The average growth rate of output in the U.S. economy since 1900 has been

- A) 3.4%. B) 2.3%. C) 6.3%. D) 10.5%.

Answer: A

8) A prolonged and deep recession is a

- A) hyperinflation. B) slowdown.
- C) contraction. D) depression.

Answer: D

9) Which of the following is *not* considered capital?

- A) a factory a company builds to produce other output
- B) a tractor produced by John Deere
- C) the knowledge an individual acquires through education
- D) 10,000 U.S. dollars

Answer: D

2 True/False

1) The only source of economic growth is growth in the number of workers in the economy.

Answer: FALSE

2) Workers who take a job related training course are enhancing their human capital.

Answer: TRUE

3) If the population is growing as fast the economy, then per capita output is growing.

Answer: FALSE

4) If more workers have more capital to work with, then production will increase.

Answer: TRUE

5) Productivity is output per worker hour.

Answer: TRUE